Supreme Court, U.S.
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No. 99-

IN THE

Supreme Court of the United States

SPORTY'S FARM, L.L.C.,

Petitioner,

v.

SPORTSMAN'S MARKET, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED FOR REVIEW

1. Did the Second Circuit Court of Appeals' failure to remand the case to the District Court to hear evidence and to decide whether the factual prerequisites for application of the Anticybersquatting Consumer Protection Act ("ACPA") have been satisfied, violate the Due Process Clause of the Fifth Amendment to the Constitution and Rule 52(a) of the Federal Rules of Civil Procedure?

2. Did the Second Circuit Court of Appeals' application of the ACPA to the petitioner, enjoining it from using and ordering it to transfer a domain name it legally owns to another private party, violate the Takings Clause of the Fifth Amendment to the Constitution?

STATEMENT PURSUANT TO RULE 29.6

Petitioner, Sporty's Farm, L.L.C., has no parent corporation and no publicly held company owns 10% or more of its stock.

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STATEMENT OF THE BASIS FOR JURISDICTION

The Second Circuit Court of Appeals entered judgment affirming the judgment of the District Court of Connecticut on February 2, 2000.

The Supreme Court of the United States has jurisdiction to review on a writ of certiorari, the judgment of the Court of Appeals pursuant to 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISIONS AND STATUTES

The Fifth Amendment to the Constitution states in pertinent part:

> No person shall be . . . deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

* * * * *

Pertinent sections of the Anticybersquatting Consumer Protection Act, Public Law 106-113 §§ 3001-3010 (§ 3002(a) codified as 15 U.S.C. § 1125(d)), is provided at Appendix C, App. 51a.

* * * * *

The Federal Trademark Dilution Act, 15 U.S.C. § 1125(c), is provided at Appendix C, App. 57a.

* * * * *

Rule 52(a) of the Federal Rules of Civil Procedure provides in pertinent part:

> Findings of fact, whether based on oral or documentary evidence, shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge the credibility of the witnesses.

STATEMENT OF THE CASE

On April 20, 1995 the domain name "sportys.com" was registered by Omega Engineering, Inc. ("Omega"). (App. 76a) On January 12, 1996, Omega, by written assignment agreement, sold the domain name "sportys.com" to the petitioner Sporty's Farm, L.L.C. ("Sporty's Farm") for $16,200. (App. 78a) In January 1996, Sporty's Farm was created as a limited liability company for the purpose of harvesting and selling timbered hardwood, cut Christmas trees and balled fir trees over the Internet.

The Sporty's Farm website is professionally designed, displaying in color the Sporty's Farm home page, depictions of various fir trees, descriptions of the trees, an e-mail address, toll free number and a local map. Sporty's Farm sells only through the Internet with the exception of limited local sales. Sporty's Farm has delivered live agricultural products to such diverse locations as the Bahamas, Mississippi, Tennessee and Texas.

Sporty's Farm commenced this action in the United States District Court for the District of Connecticut on April 29, 1996 seeking a declaration that its use of the registered domain name "sportys.com" for Christmas tree sales does not infringe the service mark "Sporty's" owned by the defendant Sportsman's

Market, Inc. ("Sportsman's") and used for catalog sales of pilot accessories and other products.

In May 1996, Sportsman's filed a five count counterclaim alleging trademark infringement and unfair trade practices. It brought a third party complaint against Omega alleging that it participated in the trademark infringement and unfair trade practices. On October 24, 1996, Sportsman's amended its counterclaim and third party complaint to include claims under the Federal Trademark Dilution Act, 15 U.S.C. § 1125(c) ("FTDA"), which became effective on January 16, 1996, subsequent to the registration and transfer of the domain name to the petitioner.

The District Court of Connecticut had subject matter jurisdiction pursuant to 28 U.S.C. §§ 1331 and 1338 because the action arose under the Lanham Act, 15 U.S.C. § 1051 *et seq.* and the Federal Declaratory Judgment Act, 28 U.S.C. § 2201 *et seq.*

The action was tried to the District Court on March 3 and 4, 1998. The Court issued a Memorandum of Decision and final judgment on March 13, 1998. As the trier of fact, it specifically found that Sporty's Farm did not willfully intend to trade on the reputation of the defendant, that Sporty's Farm and the defendant occupy different markets, that Sporty's Farm does not intend to "bridge the gap" and use its domain name to enter the market occupied by the defendant and that the use of the domain name "sportys.com" did not cause confusion in the marketplace. (App. 37a)

The District Court held that Sporty's Farm and Omega had not infringed the defendant's trademark and had not engaged in any unfair trade practice. It found, however, that the petitioner's domain name diluted the defendant's service mark,

a mark the Court determined was both distinctive and famous, in violation of the FTDA. It ordered Sporty's Farm to surrender its domain name and enjoined Sporty's Farm and Omega from taking any action to prevent the defendant from obtaining that domain name. However, it refused to award damages due to a failure of proof that "the person against whom the injunction is sought willfully intended to trade on the owner's reputation or to cause dilution of the famous mark." 15 U.S.C. § 1125(c)(2). Sporty's Farm appealed and Sportsman's cross appealed.

Briefs were filed in the summer of 1998 and oral argument was held on March 17, 1999 before the Second Circuit Court of Appeals. Months passed. On November 29, 1999, the Anticybersquatting Consumer Protection Act ("ACPA") was signed into law. Public Law 106-113 § 3001-3010 (§ 3002(a) codified as 15 U.S.C. § 1125(d)). On December 15, 1999, the Court of Appeals directed a letter to counsel requesting comment, by January 10, 2000, in the form of a letter brief on the applicability of the ACPA and whether the findings of the District Court "may be read" to include a finding that the "bad faith" requirement under the ACPA had been met. (App. 61a) Counsel forwarded its letter brief to the Court on January 7, 2000. (App. 62a) Shortly thereafter, on February 2, 2000, eleven months after oral argument, the Second Circuit Court of Appeals rendered its decision.

Unlike the FTDA that requires a trademark to be both distinctive and famous, the ACPA applies to trademarks that are simply distinctive. However, the ACPA imposes a more onerous requirement as a prerequisite to liability: a "bad faith intent" to profit from the mark. The Act covers "all domain names registered before, on, or after the date of enactment," but limits the relief available for domain names registered before enactment to injunctive relief. Public Law 106-113 § 3010.

Although the Court of Appeals affirmed the District Court's judgment, its decision was based upon the recently enacted ACPA which it raised *sua sponte*, rather than the FTDA relied upon by the District Court. Implicit in the Court's ruling was a finding that under the FTDA the defendant's mark, though distinctive, was not famous. The Court of Appeals stated:

> The district court concluded that *sporty's* is both distinctive and famous. We agree that *sporty's* is a distinctive mark. As a result, and without casting any doubt on the district court's holding in this respect, we need not, and hence do not, decide whether *sporty's* is also a "famous" mark.

App. 14a-15a. In the footnote that followed, the Court expresses its belief that *sporty's* meets the criteria for a finding of distinctiveness, but acknowledges the weakness of the defendant's claim that the mark is famous:

> More vexing is the question posed by the criterion that focuses on "the degree of recognition of the mark in the trading areas and channels of trade used by the mark's owner and the person against whom the injunction is sought." *Id.* at § 1125(c)(1)(F). Sporty's Farm contends that, although *sporty's* is a very well-known mark in the pilot and aviation niche market, Sportsman's did not (and could not) prove that the mark was well-known to Sporty's Farm customers. We need not reach this question, as we would have had to do under the FTDA, since the ACPA provides protection not only to famous marks but also to distinctive marks regardless of fame.

App. 14a-15a.

But for the passage and application of the ACPA, the District Court's judgment would have been reversed and the petitioner would have been allowed to retain and use its domain name. This conclusion is amply supported by recent cases interpreting the "famous" requirement. *See Syndicate Sales, Inc. v. Hampshire Paper Corp.*, 192 F.3d 633, 641 (7th Cir. 1999); *Avery Dennison Corporation v. Sumpton*, 189 F.3d 868 (9th Cir. 1999); *Ringling Bros. Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*, 170 F.3d 449, 461 (4th Cir. 1999), *cert. denied*, 120 S. Ct. 286 (1999); *Eli Lilly and Company v. Natural Answers, Inc.*, 86 F. Supp. 2d 834 (S.D. Ind. 2000); *Carnival Corporation v. Seaescape Casino Cruises, Inc.*, 74 F. Supp. 2d 1261 (S.D. Fla. 1999); *Hasbro, Inc. v. Clue Computing, Inc.*, 66 F. Supp. 2d 117 (D. Mass. 1999). If the Court of Appeals believed that the "famous" requirement had been met, it would have rendered its decision months earlier, in its normal timely manner, affirming under the FTDA, rather than waiting to affirm under the ACPA.

While the Court of Appeals tacitly acknowledges that the conduct of the petitioner was wholly legal during the four years in which it obtained the domain name, used the domain name, brought suit, and filed, briefed and argued the appeal, it found that the petitioner's pre-enactment conduct violated the ACPA. The Court of Appeals held that the findings of the District Court satisfied the bad faith requirement for application of the ACPA. It held that the ACPA governed the case and that its application required affirmation of the injunction issued by the District Court ordering Sporty's Farm to surrender the domain name and to take no action to prevent the defendant from obtaining it.

REASONS FOR GRANTING THE WRIT

Sporty's Farm respectfully petitions the Court for a writ of certiorari on the grounds that the Second Circuit Court of Appeals has decided an important question of federal law in a way that conflicts with relevant decisions of the Court. In a zealous attempt to be the first to interpret the ACPA, legislation admittedly on the "cutting edge" of the Internet arena, the Court of Appeals committed two errors. First, the substitution of its factual finding for that of the District Court under a set of standards not in effect at the time the District Court rendered its decision, rather than remanding the case for reconsideration in accordance with the new standards, violates the Due Process Clause of the Fifth Amendment to the Constitution and Rule 52(a) of the Federal Rules of Civil Procedure. Second, application of the ACPA to conduct legal at the time it took place so as to take a property right from one party and give it to another violates the Takings Clause of the Fifth Amendment to the Constitution.

The petitioner asks the Court to affirmatively extend the Fifth Amendment protections to property rights created as a result of the changes in technology that have placed us in the world of the Internet.

I. The Due Process Clause

In what appears to be unprecedented conduct, the Court of Appeals decided the entire case against the petitioner under a law enacted nine months after oral argument; it announced a wholly new standard of "bad faith intent" in construing that law; then, it proceeded to determine factually the petitioner's intent and liability under the new law and standard in a manner contrary to the finding of the District Court. This procedure offends all of the principles of due process discussed below.

A. The Right to be Heard in a Meaningful Manner

The fundamental essence of due process is the opportunity to be heard. *Grannis v. Ordean*, 234 U.S. 385, 394 (1914). The hearing must be provided in a "meaningful manner." *Armstrong v. Manzo*, 380 U.S. 545, 552 (1965). The right to be heard includes the reasonable opportunity to present a defense to the trier. *In Re Ruffalo*, 390 U.S. 544, *reh. denied*, 391 U.S. 961 (1968). When the credibility of witnesses is involved, a meaningful hearing should include their appearance before the trier so that it can observe their demeanor. *United States ex rel. Graham v. Mancusi*, 457 F.2d 463, 469 (2d Cir. 1972); *Dyer v. MacDougall*, 201 F.2d 265, 268-69 (2d Cir. 1952).

Moreover, "in judicial as distinguished from administrative proceedings, there is an inherent right on the part of litigants to have a decision rendered by the judge who presides at trial and hears testimony". *Lacomastic Corporation v. Parker*, 54 F. Supp. 138, 141 (D. Md. 1944).

This Court has sharply rebuked federal appellate courts for deciding issues not addressed below, reasoning that it deprives litigants a fair opportunity to be heard and offer evidence on the issue. *See Pullman-Standard v. Swint*, 456 U.S. 273, 291-292 (1982); *Singleton v. Wulff*, 428 U.S. 106, 120 (1976). In *Hormel v. Helvering*, 312 U.S. 552, 556 (1941) the court posited this fundamental principle:

> Ordinarily an appellate court does not give consideration to issues not raised below. For our procedural scheme contemplates that parties shall come to issue in the trial forum vested with authority to determine questions of fact. This is essential in order that parties may have the opportunity to offer

> all the evidence they believe relevant to the issues which the trial tribunal is alone competent to decide; it is equally essential in order that litigants may not **be surprised on appeal by final decision there of issues upon which they have had no opportunity to introduce evidence.** (emphasis added)

See also Fountain v. Filson, 336 U.S. 681, 683 (1949) (per curiam) (reversing summary judgment order "made on appeal on a new issue as to which the opposite party had no opportunity to present a defense before the trial court").

In addition to the unfair surprise this practice visits on the litigants, it often involves the appellate court improperly engaging in factual determinations which usurps the jurisdiction of the trial court and precludes the litigants from adducing evidence to a trier on the facts being decided. *See Singleton*, 428 U.S. at 119-120.

This Court has often observed that appellate courts lack the ability to judge witness credibility and demeanor and that district courts have far greater expertise in that area. In *Anderson v. City of Bessemer City*, 470 U.S. 564, 574-575 (1985), the court noted "[t]he rationale for deference to the original finder of fact is not limited to the superiority of the trial judge's position to make determination of credibility. The trial judge's major role is the determination of fact, and with experience in fulfilling that role comes expertise."

When an appellate court is presented with an issue not available to the trial court, it should remand the matter to provide the litigants a fair opportunity to present their cases and to have the trial court render necessary factual determinations.

See Pullman-Standard, 456 U.S. at 292-293.[1] This is particularly so when state-of-mind issues such as intent, motive, or bad faith are involved. *Id.* at 288.

B. The Court of Appeals Deprived Petitioner of the Opportunity to be Heard in a Meaningful Manner

When the Court of Appeals engaged in a *de novo* fact finding exercise to determine the petitioner's liability under the ACPA, it deprived petitioner an opportunity to be heard in violation of its right to due process.

First, the Court of Appeals decided issues not presented at trial. The ACPA did not exist when Sporty's Farm presented its defenses at trial, or even when it argued its appeal. The Court of Appeals not only applied this new law, but found that the requisite bad faith element could be established with less proof than that needed to establish the same element under any existing law. In footnote 13 of its opinion, the Court of Appeals acknowledged its singular construction of the term bad faith: "We expressly note that 'bad faith intent to profit' are terms of art in the ACPA and hence should not necessarily be equated with 'bad faith' in other contexts." (App. 21a)

Even where it is not facially apparent what evidence the party will adduce in defense of the newly raised issue, it still

1. The one exception is where the Court of Appeals is "justified in resolving an issue not passed on in the district court because proper resolution was beyond any doubt or grave injustice might result from failure to do so." *Thornburgh v. American College of Obstetricians and Gynecologists*, 476 U.S. 747, 825 (1986) (O'Connor, J. dissenting) (*citing Singleton v. Wulff, supra*, 428 U.S. at 121), *overruled on other grounds, Planned Parenthood v. Casey*, 505 U.S. 833 (1992). However, that exception will not apply where the new issue implicates questions of witness credibility, motive, or intent — as such issues are necessarily fact intensive and must be decided by the trial court.

must be provided the opportunity. In *Singleton*, for example, the Supreme Court reversed the Court of Appeals' decision to reach the merits (on a point not considered by the trial court) even though the Supreme Court had "no idea what evidence, if any, petitioner would, or could offer in defense of this statute" because it was clear that "petitioner has had no opportunity to proffer such evidence." In *Singleton*, this Court further recognized that such conduct is even more egregious when the decision involves issues not ever addressed by the Supreme Court. "[T]he issue resolved by the Court of Appeals has never been passed upon in any decision of this Court. This being so, injustice was more likely to be caused than avoided by deciding the issue without petitioner's having had an opportunity to be heard." *Id.* at 121.

Here, the issue decided by the Court of Appeals had never been considered by ***any*** court. Sporty's Farm had no notice that its conduct, fully lawful when it occurred, would be measured against standards no one even considered until after trial and appeal. Obviously too, Sporty's Farm had no opportunity to present evidence to defend against the statute or against this newly created standard of "bad faith intent." Sporty's Farm's only chance to address the new Act came when the Court of Appeals requested a short letter brief, nine months after oral argument and just days after enactment. In its letter, Sporty's Farm emphasized the need to introduce evidence on the issues implicated by the ACPA in the event the Act was deemed applicable. The Court of Appeals, however, disregarded that point.

Second, not only did the Court of Appeals decide an issue not available to the trial court, it compounded the error when it engaged in improper appellate fact finding and determined that Sporty's Farm acted in bad faith. Issues of a parties' intent or

motivation are particularly fact bound and almost exclusively within the province of the trier rather than the appellate courts. *Cf. Pullman-Standard*, 456 U.S. at 288; *United States v. Yellow Cab Co.*, 338 U.S. 338, 341 (1949).

In *Bose Corporation v. Consumers Union of United States*, 466 U.S. 485, 517-519 (1984), Justice Rehnquist in his dissent noted the long tradition of "leaving state-of-mind determinations . . . to triers of fact with only deferential appellate review" and opined that such determinations generally involve an evaluation of the credibility of the witness and "are best left to the trial judge." The cases emphasizing the importance of witness demeanor as an aid to the determination of credibility are "numerous and well-known." *United States ex rel. Graham v. Mancusi*, *supra*, 457 F.2d at 469.

Rather than remand, the Court of Appeals proceeded to judge the credibility of the petitioner's witnesses, assess the petitioner's intent (as that term is used in a statute that did not exist when Sporty's Farm might have formed an intent) and rule on its motivations, all without hearing a single word of testimony — or any other evidence. It reached conclusions based only on its own interpretation of a cold record from a trial where that specific point was not even at issue.

Imposing liability under a new statute and engaging in impermissible fact finding are each reasons, standing alone, to conclude that the Court of Appeals deprived the petitioner of the right to be heard, but the combination of the two seems a particularly profound deprivation of the petitioner's right to due process of law.

C. Violation of Rule 52(a) of the Federal Rules of Civil Procedure

In a closely related vein, the Court of Appeals' factual determination that the petitioner acted with bad faith intent is contrary to the District Court findings and, thus, violates Rule 52(a) of the Federal Rules of Civil Procedure.

That rule prescribes that findings of fact in actions tried without a jury "shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge the credibility of witnesses." When findings are based on determinations regarding credibility, Rule 52(a) demands even greater deference to the trial court findings; "for only the trial judge can be aware of the variations in demeanor and tone of voice, that bear so heavily on the listener's understanding of and belief in what is said." *Anderson*, 470 U.S. at 575.

This Court has firmly admonished Courts of Appeal for failure to follow these strictures. In *Pullman-Standard*, 456 U.S. at 292-293, it had this to say about the Court's transgression:

> [T]he Court of Appeals, after holding that the District Court had failed to consider relevant evidence and indicating that the District Court might have come to a different conclusion had it considered that evidence, failed to remand for further proceedings as to the intent of IAM and the significance, if any, of such a finding with respect to the intent of USW itself. Instead, the Court of Appeals made its own determination as to the motives of IAM, found that USW had acquiesced in the IAM conduct . . . **Proceeding in this manner seems to us incredible** unless the Court of Appeals

> construed its own well-established Circuit rule with respect to its authority to arrive at independent findings on ultimate facts free of the strictures of Rule 52(a) also to permit it to examine the record and make its own independent findings with respect to those issues on which the district court's findings are set aside for an error law. As we have previously said, however, the premise for this conclusion is infirm: whether an ultimate fact or not, discriminatory intent under § 703(h) is a factual matter subject to the clearly-erroneous standard of Rule 52(a). It follows that when a district court's finding on such an ultimate fact is set aside for an error of law, the court of appeals is not relieved **of the usual requirement of remanding for further proceedings to the tribunal charged with the task of fact-finding in the first instance**. (Emphasis added)

In *Inwood Laboratories, Inc. v. Ives Laboratories*, 456 U.S. 844 (1982) the Court reached a similar result commenting:

> An appellate court cannot substitute its interpretation of the evidence for that of the trial court simply because the reviewing court "might give the facts another construction, resolve the ambiguities differently and find a more sinister cast to actions which the District Court deemed innocent."

Id. at 857 *citing United States v. Real Estate Boards*, 339 U.S. 485, 495 (1950). *See also Anderson*; *Amadeo v. Zant*, 486 U.S. 214, 228 (1988); *Icicle Seafoods, Inc. v. Worthington*, 475 U.S. 709, 712-715 (1986).

The District Court made express findings that completely undercut any conclusion that Sporty's Farm acted with bad intent to profit from the defendant's trademark. The court held that the petitioner and the defendant sell different products in different channels to different market spheres. It found that the petitioner had agreed never to use the domain name "sportys.com" for the sale of the products sold by the defendant. These unchallenged findings are directly contrary to a conclusion that the petitioner had any "intent to profit from" the defendant's mark, much less a bad faith intent.

Next, the presence of bad faith is the most important of the eight *Polaroid* factors considered by the District Court in its determination of whether a likelihood of trademark confusion existed. After analyzing the *Polaroid* factors, the Court determined that there was no likelihood of confusion, implicitly finding that no bad faith existed.

Third, and most important, the District Court expressly found a lack of the proof required for damages under the FTDA that "the person against whom the injunction is sought willfully intended to trade on the owner's reputation or to cause dilution of the famous mark." 15 U.S.C. § 1125(c)(2). The element of willfulness under the FTDA is essentially the same as, if not a less onerous requirement than, the element of bad faith intent. It has been held that "willful intent" is the equivalent of "deliberate", such that a plaintiff seeking damages must prove the defendant deliberately intended to trade on the owner's mark or to dilute the mark. *Ringling Bros. — Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*, 955 F.Supp. 598 (E.D. Va 1997), *aff'd*, 170 F.3d 449 (4th Cir. 1999), *cert. denied*, 120 S. Ct. 286 (1999). Although related, "bad faith" seems to suggest more of a dishonest purpose. *See Philip v. Fairchild University*, 118 F.3d 131, 135 (2d Cir.

1997). In a trademark infringement/dilution context, "bad faith" has been construed to mean a deliberate adoption of a trademark with the "desire to trade on the goodwill, fame and reputation" of the owner, particularly when the defendant knew the use would cause confusion. *Tri-Star Pictures, Inc. v. Kurt Unger*, 14 F. Supp. 2d 339, 352 (S.D.N.Y. 1998).

Similarly, the Lanham Act permits the award of counsel fees to the prevailing party "in exceptional cases." 15 U.S.C. § 1117(a). This language has been held to mean that "such fees should be awarded only on evidence of fraud or bad faith," *Twin Peaks Prods., Inc. v. Publications Int'l Ltd.*, 996 F.2d 1366, 1383 (2d Cir. 1993) (citation and internal quotation omitted), or on evidence of "willful infringement," *Bambu Sales, Inc. v. Ozak Trading, Inc.*, 58 F.3d 849, 854 (2d Cir. 1995). *Cf. New York State Society of Certified Public Accountants v. Eric Louis Associates*, 79 F. Supp. 331 (S.D.N.Y. 1999) (bad faith found where defendant's domain name incorporated plaintiff's trademark for very purpose of attracting plaintiff's members). The use of either "bad faith" or "willful" misconduct interchangeably to satisfy the "exceptional cases" requirement shows that their meaning is substantively the same. Hence, the District Court's finding that no "willful" misconduct occurred within the meaning of the FTDA is tantamount to a finding that no "bad faith" occurred.

Yet the Court of Appeals, without holding that these findings were clearly erroneous, made its own contrary factual finding that Sporty's Farm had indeed acted in bad faith, and intended to profit from Sportsman's mark when it adopted the domain name "sportys.com".

When the Court of Appeals sought letter briefs on applying the ACPA, it asked "whether the findings of the district court

may be read to include a finding that (as these terms are defined by the statute) there was a 'bad faith intent' by the defendants 'to profit' from the registration of sportys.com." In responding, Sportsman's Market wove findings with trial testimony and promoted its interpretation that the owners of Sporty's Farm had intended to compete with Sportsman's Market through an entity called Pilot's Depot. From there, it argued that Sporty's Farm harbored the requisite bad faith intent for liability under the ACPA. It neglected to note that Pilot's Depot never competed with Sportsman's Market and that Sporty's Farm agreed to submit to an order that Pilot's Depot and Sporty's Farm would never so compete. Sportsman's Market will no doubt attempt the same spin in its response to this petition.

But the District Court had all of these facts, considered these same arguments and found that there was no bad faith intent under any prevailing standard. The Court of Appeals, without benefit of any other evidence, found differently. In doing so, it not only ignored the District Court's contrary findings, but it imparted a meaning to the term "bad faith intent" which imposes liability for a far lesser degree of conduct than that required by any existing law. This construction is itself directly contrary to the intent disclosed by the legislative history of the ACPA.

When Senator Hatch introduced the bill that became the ACPA, he asked that a section-by-section analysis of the bill be included in the Congressional Record. (*106th Congress, 1st Sess. 7/29/99*, vol. 145, no. 109.) Among other things, the analysis states:

> The bill is carefully and narrowly tailored, however, to extend only to cases where the plaintiff can demonstrate that the defendant registered, trafficked

> in, or used the offending domain name with bad faith intent to profit from the goodwill of a mark belonging to someone else. Thus, the bill does not extend to . . . someone who is aware of the trademark status of the name but registers a domain name containing the mark for any reason other than with bad faith intent to profit from the goodwill associated with that mark.
>
> . . . [T]here may be concurring uses of the same name that are noninfringing, such as the use of the "Delta" mark for both air travel and sink faucets. Similarly, the registration of the domain name "deltaforce.com" by a movie studio would not tend to indicate a bad faith intent on the part of the registrant to trade on Delta Airlines or Delta Faucets' trademarks.

Id. at S9752.

This history demonstrates that the ACPA is narrow in effect and that the "bad faith" concept, far from expanding the current interpretation of that term, is particularly restricted in application. If the District Court found no bad faith intent under the broader existing criteria, the Court of Appeals was in no position to reach a contrary finding under this more narrow criteria.

The Court of Appeals decided Sporty's Farm's liability solely upon an issue not presented to the trial court; it did so based on its own factual findings contrary to those of the District Court and a new construction of the term "bad faith intent" at utter variance with the applicable legislative history. All of this occurred without Sporty's Farm having any opportunity to

present evidence, argument or any kind of defense. Sporty's Farm was emphatically denied its due process right to be heard.

This Court needs to establish some parameters within which courts may determine cases based upon statutes enacted after the fact and raised *sua sponte*. Does the long established judicial disfavor of retroactive application of law continue to exist? If a court can withhold its decision for nine months waiting for new legislation to change the outcome of a case, is there any limit to time within which it can do so? Are there any restrictions on the circumstances wherein it may raise the issue of new legislation *sua sponte*? The petitioner submits that this is a perfect case to address these issues.

II. The Takings Clause

The Fifth Amendment to the Constitution prohibits the taking of private property by the government for public use without just compensation. The purpose of this Fifth Amendment prohibition is not to prevent the taking but to ensure that the taking is rationally related to a legitimate exercise of police power and that the property owner is justly compensated.

The application of the ACPA to effect a divestiture of property rights obtained and used prior to enactment violates the Fifth Amendment. The injunction issued by the District Court and affirmed by the Court of Appeals via application of the ACPA, took property protected by the Constitution from the petitioner and effectively gave it to the defendant based upon a set of standards of conduct not in effect at the time the petitioner obtained and used its domain name. This constitutes a taking whether analyzed as a *per se* taking as this Court did in *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419 (1982) and *Lucas v. South Carolina Coastal Council*, 505 U.S. 1003 (1992) or under the factors set forth in *Penn Central*

Transportation Co. v. New York City, 438 U.S. 104 (1978) as this Court did in *Eastern Enterprises v. Apfel*, 524 U.S. 498 (1998), *Dolan v. City of Tigard*, 512 U.S. 374 (1994) and *Nollan v. California Coastal Commission*, 483 U.S. 825 (1987).

Although Congress stated that the ACPA applies to domain names registered before the date of enactment, its limitation on the relief available in cases where the domain name was registered before enactment is an explicit effort to avoid retroactive application of its provisions, for injunctive relief is ordinarily considered prospective. *Landgraf v. USI Film Products*, 511 U.S. 244, 274 (1994). However, the injunction issued in the instant action is far from prospective. The Court of Appeal's application of the ACPA to affirm the relief ordered by the District Court is not in keeping with the intent of Congress to ensure only prospective enforcement of the ACPA. The injunction in this case does not affect future conduct alone; it divests Sporty's Farm of its property - property protected by the Constitution.[2] Injunctive relief is proper under the ACPA,

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2. A domain name, once it is put into commerce, is a property right protected by the Constitution as are a host of other intangible rights. *See Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003-1004 (1984) (trade secrets held to be property rights protected by the Constitution); *Armstrong v. United States*, 364 U.S. 40, 44-46 (1960) (materialman's lien held to be a property right protected by the Constitution); *Louisville Joint Stock Land Bank v. Radford*, 295 U.S. 555, 596-602 (1935) (real estate lien held to be a protected right); *Lynch v. United States*, 292 U.S. 571, 579 (1934) (valid contracts are property rights protected by the Constitution); *Roth v. Pritikin*, 710 F.2d 934 (2d Cir. 1983), *cert. denied*, 464 U.S. 961 (1983) (an interest in a copyright held to be a property right protected by the Constitution). Congress in enacting the ACPA specifically identified a domain name as property by allowing in rem jurisdiction. 15 U.S.C. § 1125(d)(2)(A). *See Caesar's World, Inc. v. Caesars-Palace.com*, 2000 U.S. Dist. LEXIS 2671 (D.Va. March 3, 2000).

but it must be fashioned to be prospective so as to avoid an unconstitutional taking.[3]

> It is . . . not surprising that the antiretroactive principle finds expression in several provisions of our constitution. The Ex Post Facto Clause flatly prohibits retroactive application of penal legislation. . . . The Fifth Amendment's Takings Clause prevents the Legislature (and other government actors) from depriving private persons of vested property rights except for a "public use" and upon payment of "just compensation." . . . The Due Process Clause also protects the interests in fair notice and repose that may be compromised by retroactive legislation; a justification sufficient to validate a statute's prospective application under the clause "may not suffice" to warrant its retroactive application. *Usery v. Turner Elkhorn Mining Co.*, 428 U.S. 1, 17, 49 L. Ed. 2d 752, 96 S. Ct. 2882 (1976).

Landgraf, 511 U.S. at 266. In this case, the Court of Appeals' retroactive application of the ACPA does not withstand constitutional scrutiny.

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3. For example, an injunction, appropriately prospective, might have read as follows: Sporty's Farm is hereby enjoined from using its domain name "sportys.com" for any purpose other than its current use, to promote and effect sales of agricultural products. *See Viacom Incorporated v. Ingram Enterprises, Inc.*, 141 F.3d 886, 890 (8th Cir. 1998) (In an action involving the newly enacted FTDA, the Court of Appeals held that if defendant's pre-enactment conduct was lawful and resulted in the defendant "acquiring a valuable and legitimate property interest of its own," the plaintiff would "presumably not be entitled to an anti-dilution injunction granting it a nationwide monopoly" in the use of its mark.)

A. *Per Se* Taking

Along with ownership of property comes a "bundle of rights" including but not limited to the right of use of the property, subsumed in which is the right to exclude others. *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1011 (1984); *Loretto*, 458 U.S. at 435-436; *Kaiser Aetna v. United States*, 444 U.S. 164, 176 (1979). The petitioner has suffered a complete and permanent taking of its property. It is left with no right to possess or use its legally acquired property. It has been deprived of all economic or productive use. Not only has an essential strand in the bundle of rights been lost, but the whole bundle has been taken away and given to someone else. Application of the ACPA to effect this end is a *per se* violation of the Takings Clause.

When legislation effects a permanent physical occupation or eliminates all economic use of property, this Court has invariably found a taking. *See Loretto*; *Lucas*, 505 U.S. at 1015. With respect to permanent physical occupations, this Court has found a taking, "no matter how minute the intrusion, and no matter how weighty the public purpose behind it." *Lucas*, 505 U.S. at 1015. In *Loretto* this Court struck down a New York law that required a landlord to permit a cable television company to install its cable facilities upon his property. Despite the fact that the intrusion was minor, the Court held that because it was a permanent physical occupation it was a *per se* taking in violation of the Takings clause.

> The historical rule that a permanent physical occupation of another's property is a taking has more than tradition to commend it. Such an appropriation is perhaps the most serious form of invasion of an owner's property interests. To borrow a metaphor,

> *cf. Andrus v. Allard*, 444 U.S. 51, 65-66 (1979), the government does not simply take a single "strand" from the "bundle" of property rights: it chops through the bundle, taking a slice of every strand.

Loretto, 458 U.S. at 435. Permanent physical occupation denies the owner the right to possess and use his property, the right to exclude others from possession and use and the right to control or dispose of that property. *Id.* at 435-436. *See also Kaiser Aetna*, 444 U.S. at 180 (navigational servitude upon private marina constitutes a *per se* taking); *United States v. Causby*, 328 U.S. 256 (1946) (physical invasion of airspace constitutes a *per se* taking).

This Court has also found a *per se* taking when a regulation effectively eliminates all economically beneficial or productive use of property. *See Lucas*, 505 U.S at 1015-1016. In *Lucas*, the legislature enacted the Beachfront Management Act which effectively prohibited the plaintiff property owner from developing two parcels of waterfront property he had purchased prior to enactment of the legislation. This Court held that total deprivation of beneficial use is the equivalent of a physical appropriation and constituted a taking under the Fifth Amendment. *Id.* at 1017.

B. *Penn Central* Factors

Analysis of the three factors set forth in *Penn Central Transportation Co. v. New York City*, *supra*, also supports a finding of an unconstitutional taking in the instant case.

First, the economic impact upon Sporty's Farm is complete and total. The vast majority of Sporty's Farm business is conducted via the Internet under the domain name "sportys.com." While the impact may not be in the millions as was the case in *Eastern Enterprises*, Sporty's Farm does not have the resources of Eastern, either.

Second, the impact upon the petitioner's investment backed expectations is also complete and total. The business of Sporty's Farm was built around its ownership and use of its domain name, both of which were legal until passage of the ACPA on November 29, 1999. In *Eastern Enterprises*, while health benefits for coal minors was a cost Eastern reasonably expected to incur, the Court nevertheless found a taking in violation of the Fifth Amendment because the allocation scheme, by operating retroactively, imposed an obligation to fund lifetime benefits which was beyond Eastern's reasonable investment-backed expectations. *Id.* at 532. Certainly it was foreseeable to Sporty's Farm that legislation would be passed to keep pace with the change in technology. It was not foreseeable, however, that Sporty's Farm would be deprived of the ownership and use of its property due to the application of a new standard of conduct not in effect at the time the property was acquired and used as the lynchpin of its business.

Third, the character of the government action as a result of application of the ACPA to domain names registered before its enactment is akin to a total physical permanent invasion. That a legitimate public purpose may be at the heart of the legislation does not insulate the ACPA from constitutional challenge. This Court has found a taking without just compensation in the context of a variety of legitimate government objectives. *See Eastern Enterprises* (economic regulation designed to provide lifetime health benefits to coal miners); *Dolan* (land use regulation designed to protect against flooding and traffic congestion); *Lucas* (land use regulation designed to protect a threatened public resource, South Carolina's beaches); *Nollan* (land use regulations designed to provide physical and visual access to public beaches); *Loretto* (economic regulation designed to promote communications); *Armstrong v. United States*, 364 U.S. 40 (1960) (protection of government property

from seizure); *Causby* (control and protection of air space for military navigation). While a regulation may serve a legitimate public purpose, the courts must determine if an "otherwise valid regulation so frustrates property rights that compensation must be paid." *Loretto*, 458 U.S. at 425.

To uphold legislation against a Takings Clause challenge, this Court has required that the legislation or regulation must **substantially advance legitimate state interests** and must not deny an owner economically viable use of his property. *Nollan*, 483 U.S. at 831 (held that the appropriation of a public easement across the landowner's premises constituted a taking of property rather than a mere restriction on its use because it did not substantially advance legitimate state interests). In addition to an essential nexus between legitimate government interests and the exaction required by a regulation, this Court has required that **a rough proportionality** exist between the exaction and the purposes sought to be furthered by the regulation. *Dolan*, 512 U.S. at 386 (held that requiring the dedication of property for a public greenway and additional property for a pedestrian/ bicycle pathway is not sufficiently related in nature and extent to the impact of the proposed development to meet the "rough proportionality" standard).

The purpose of the ACPA is to:

> [P]rotect consumers and American businesses . . . promote growth of online commerce, and . . . provide clarity in the law for trademark owners by prohibiting the bad-faith and abusive registration of distinctive marks as Internet domain names with the intent to profit from the goodwill associated with such marks — a practice commonly referred to as "cybersquatting."

S. Rep. No. 106-140, at 4. Congress made clear its intent regarding the type of cases the ACPA is designed to address:

> The bill is carefully and narrowly tailored, however, to extend only to cases where the plaintiff can demonstrate that the defendant registered, trafficked in, or used the offending domain name with bad faith intent to profit from the goodwill of a mark belonging to someone else. Thus, the bill does not extend to innocent domain name registrations by those who are unaware of another's use of the name, **or even to someone who is aware of the trademark status of the name but registers a domain name containing the mark for any reason other than with bad faith intent to profit from the goodwill associated with that mark.**

106th Congress, 1st Sess. 7/29/99, vol. 145, no. 109 at S9752. The intent of the legislation is not furthered by application of the Act to the instant action.[4] The ACPA as applied does not **substantially advance** a legitimate governmental interest. Further, the complete divestiture of the petitioner's property right is not **roughly proportional** to goals of the ACPA.

The goal of the legislature is to provide new standards of conduct to keep pace with the change in technology. Injunctive relief that regulates conduct alone is appropriate prospective

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4. For an appropriate application, *see Shields v. Zuccarini*, 2000 U.S. Dist. LEXIS 3350 (E.D. PA March 22, 2000) (The defendant, a wholesaler of Internet domain names, registered five variations of the plaintiff's site "joecartoon.com". Visitors were trapped in the sites, unable to exit without clicking on a series of ads for which the defendant received between ten and fifteen cents per click. The court held that the defendant had "engaged in exactly the type of conduct the ACPA is designed to prevent.")

application of the ACPA. However, to apply the Act so as to deprive the petitioner of its property even though it has conducted its affairs legally and in keeping with the standards of conduct in effect at the time, is an inappropriate retroactive application of the ACPA. Its application under the circumstances of the instant action amounts to an unconstitutional taking prohibited by the Fifth Amendment.

CONCLUSION

The petitioner respectfully urges the Court to grant the Petition in order to correct the error of the Court of Appeals in failing to apply the protections of the Fifth Amendment Due Process and Takings Clauses to property rights created in the new arena of the worldwide web.

Respectfully submitted,

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APPENDIX

APPENDIX A — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT DATED AND DECIDED FEBRUARY 2, 2000

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

August Term, 1998

(Argued: March 17, 1999 Decided: FEB 2 2000

Docket Nos. 98-7452 (L), 98-7538 (XAP)

SPORTY'S FARM L.L.C.,

Plaintiff-Counter-Defendant-Appellant-Cross-Appellee,

v.

SPORTSMAN'S MARKET, INC.,

Defendant-Third-Party-Plaintiff-Counter-Claimant-Appellee-Cross-Appellant,

OMEGA ENGINEERING, INC.,

Third-Party-Defendant-Appellee.

Before: OAKES, CALABRESI, and GIBSON,*
Circuit Judges.

* * *

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* The Honorable John R. Gibson, Circuit Judge of the United States Court of Appeals for the Eighth Circuit, sitting by designation.

Appendix A

CALABRESI, *Circuit Judge*:

This case originally involved the application of the Federal Trademark Dilution Act ("FTDA") to the Internet. *See* Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (codified at 15 U.S.C. §§ 1125, 1127 (Supp. 1996)). While the case was pending on appeal, however, the Anticybersquatting Consumer Protection Act ("ACPA"), Pub. L. No. 106-113 (1999), *see* H.R. Rep. No. 106-479 (Nov. 18, 1999), was passed and signed into law. That new law applies to this case.

Plaintiff-Counter-Defendant-Appellant-Cross-Appellee Sporty's Farm L.L.C. ("Sporty's Farm") appeals from a judgment, following a bench trial, of the United States District Court for the District of Connecticut (Alfred V. Covello, *Chief Judge*) dated March 13, 1998. Defendant-Third-Party-Plaintiff-Counter-Claimant-Appellee-Cross-Appellant Sportsman's Market, Inc. ("Sportsman's") cross-appeals from the same judgment.

The district court held: (1) that the Sportsman's trademark ("*sporty's*") was a *famous* mark entitled to protection under the FTDA; (2) that Sporty's Farm and its parent company, Third-Party-Defendant-Appellee Omega Engineering, Inc. ("Omega"), diluted the *sporty's* mark by using the Internet domain name "sportys.com" to sell Christmas trees and by preventing Sportsman's from using its trademark as a domain name; (3) that applying the FTDA to Sporty's Farm through an injunction requiring it to relinquish sportys.com was both equitable and not a retroactive application of the statute; (4) that Sportsman's

was limited to injunctive relief since the conduct of Sporty's Farm and Omega did not constitute a willful intent to dilute under the FTDA; and (5) that Sporty's Farm and Omega did not violate the Connecticut Unfair Trade Practices Act ("CUTPA"), Conn. Gen. Stat. Ann. §§ 42-110a to 42-110q (West 1992 & Supp. 1999). We apply the new anticybersquatting law and affirm the judgment in all respects, but, given the new law, on different grounds from those relied upon by the district court.

BACKGROUND

I

Although the Internet is on its way to becoming a familiar aspect in our daily lives, it is well to begin with a brief explanation of how it works. The Internet is a network of computers that allows a user to gain access to information stored on any other computer on the network. Information on the Internet is lodged on files called web pages, which can include printed matter, sound, pictures, and links to other web pages. An Internet user can move from one page to another with just the click of a mouse.[1]

Web pages are designated by an address called a domain name. A domain name consists of two parts: a top level domain and a secondary level domain. The top level domain is the domain name's suffix. Currently, the Internet is divided

1. A mouse is a device that allows a computer user to issue commands by moving a marker across the screen and then clicking on the symbol, word, or icon that represents the particular information that the user wants to access.

primarily into six top level domains: (1) .edu for educational institutions; (2) .org for non-governmental and non-commercial organizations; (3) .gov for governmental entities; (4) .net for networks; (5) .com for commercial users, and (6) a nation-specific domain, which is .us in the United States. The secondary level domain is the remainder of the address, and can consist of combinations of letters, numbers, and some typographical symbols.[2] To take a simple example, in the domain name "cnn.com," cnn ("Cable News Network") represents the secondary level domain and .com represents the top level domain. Each domain name is unique.

Over the last few years, the commercial side of the Internet has grown rapidly. Web pages are now used by companies to provide information about their products in a much more detailed fashion than can be done through a standard advertisement. Moreover, many consumers and businesses now order goods and services directly from company web pages. Given that Internet sales are paperless and have lower transaction costs than other types of retail sales, the commercial potential of this technology is vast.

For consumers to buy things or gather information on the Internet, they need an easy way to find particular companies or brand names. The most common method of locating an unknown domain name is simply to type in the company name or logo with the suffix .com.[3] If this proves

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2. Certain symbols, such as apostrophes ('), cannot be used in a domain name.

3. Nothing prevents an American commercial entity from seeking to use the .org or .us top level domains, but, especially in the United States, it has become customary for commercial web pages to use .com.

unsuccessful, then Internet users turn to a device called a search engine.[4] A search engine will find all web pages on the Internet with a particular word or phrase. Given the current state of search engine technology, that search will often produce a list of hundreds of web sites through which the user must sort in order to find what he or she is looking for. As a result, companies strongly prefer that their domain name be comprised of the company or brand trademark and the suffix .com. *See* H.R. Rep. No. 106-412, at 5 (1999).

Until recently, domain names with the .com top level domain could only be obtained from Network Solutions, Inc. ("NSI"). Now other registrars may also assign them. But all these registrars grant such names primarily on a first-come, first-served basis upon payment of a small registration fee. They do not generally inquire into whether a given domain name request matches a trademark held by someone other than the person requesting the name. *See id.*

Due to the lack of any regulatory control over domain name registration, an Internet phenomenon known as "cybersquatting" has become increasingly common in recent years.[5] *See, e.g.*, *Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316 (9th Cir. 1998). Cybersquatting involves the registration as domain names of well-known trademarks by non-

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4. Undoubtedly, there are many people who use a search engine before typing in a company name plus .com. The manner in which users search the Internet depends on how quickly they think the search engine is likely to locate the desired web page.

5. "Cyber" is the prefix used to denote Internet-related things. The realm of the Internet is often referred to as "cyberspace."

trademark holders who then try to sell the names back to the trademark owners. Since domain name registrars do not check to see whether a domain name request is related to existing trademarks, it has been simple and inexpensive for any person to register as domain names the marks of established companies. This prevents use of the domain name by the mark owners, who not infrequently have been willing to pay "ransom" in order to get "their names" back. *See* H.R. Rep. No. 106-412, at 5-7; S. Rep. No. 106-140, at 4-7 (1999).

II

Sportsman's is a mail order catalog company that is quite well-known among pilots and aviation enthusiasts for selling products tailored to their needs. In recent years, Sportsman's has expanded its catalog business well beyond the aviation market into that for tools and home accessories. The company annually distributes approximately 18 million catalogs nationwide, and has yearly revenues of about $50 million. Aviation sales account for about 60% of Sportsman's revenue, while non-aviation sales comprise the remaining 40%.

In the 1960s, Sportsman's began using the logo "*sporty*" to identify its catalogs and products. In 1985, Sportsman's registered the trademark *sporty's* with the United States Patent and Trademark Office. Since then, Sportsman's has complied with all statutory requirements to preserve its interest in the *sporty's* mark. *Sporty's* appears on the cover of all Sportsman's catalogs; Sportsman's international toll free number is 1-800-4*sportys*; and one of Sportsman's domestic toll free phone numbers is 1-800-*Sportys*. Sportsman's spends about $10 million per year advertising its *sporty's* logo.

Appendix A

Omega is a mail order catalog company that sells mainly scientific process measurement and control instruments. In late 1994 or early 1995, the owners of Omega, Arthur and Betty Hollander, decided to enter the aviation catalog business and, for that purpose, formed a wholly-owned subsidiary called Pilot's Depot, LLC ("Pilot's Depot"). Shortly thereafter, Omega registered the domain name sportys.com with NSI. Arthur Hollander was a pilot who received Sportsman's catalogs and thus was aware of the *sporty's* trademark.

In January 1996, nine months after registering sportys.com, Omega formed another wholly-owned subsidiary called Sporty's Farm and sold it the rights to sportys.com for $16,200. Sporty's Farm grows and sells Christmas trees, and soon began advertising its Christmas trees on a sportys.com web page. When asked how the name Sporty's Farm was selected for Omega's Christmas tree subsidiary, Ralph S. Michael, the CEO of Omega and manager of Sporty's Farm, explained, as summarized by the district court, that

> in his own mind and among his family, he always thought of and referred to the Pennsylvania land where Sporty's Farm now operates as *Spotty's farm*. The origin of the name . . . derived from a childhood memory he had of his uncle's farm in upstate New York. As a youngster, Michael owned a dog named Spotty. Because the dog strayed, his uncle took him to his upstate farm. Michael thereafter referred to the farm as Spotty's farm. The name Sporty's Farm was . . . a subsequent derivation.

Joint Appendix ("JA") at 277 (emphasis added). There is, however, no evidence in the record that Hollander was considering starting a Christmas tree business when he registered sportys.com or that Hollander was ever acquainted with Michael's dog Spotty.

In March 1996, Sportsman's discovered that Omega had registered sportys.com as a domain name. Thereafter, and before Sportsman's could take any action, Sporty's Farm brought this declaratory action seeking the right to continue its use of sportys.com. Sportsman's counterclaimed and also sued Omega as a third-party defendant for, *inter alia*, (1) trademark infringement, (2) trademark dilution pursuant to the FTDA, and (3) unfair competition under state law. Both sides sought injunctive relief to force the other to relinquish its claims to sportys.com. While this litigation was ongoing, Sportsman's used "sportys-catalogs.com" as its primary domain name.

After a bench trial, the court rejected Sportsman's trademark infringement claim and all related claims that are based on a "likelihood of [consumer] confusion" since "the parties operate wholly unrelated businesses [and t]herefore, confusion in the marketplace is not likely to develop."[6] *Id.* at 282-83. But on Sportsman's trademark dilution action, where a likelihood of confusion was not necessary, the district court found for Sportsman's. The court concluded (1) that *sporty's* was a *famous* mark entitled to protection under the FTDA since "the '*Sporty's*' mark enjoys general

6. The district court also rejected Sportsman's federal actions for false designation and unfair competition on the same rationale. These rulings have not been appealed.

name recognition in the consuming public," *id.* at 288, and (2) that Sporty's Farm and Omega had diluted *sporty's* because "registration of the 'sportys.com' domain name effectively compromises Sportsman's Market's ability to identify and distinguish its goods on the Internet . . . . [by] preclud[ing] Sportsman's Market from using its 'unique identifier,' " *id.* at 289. The court also held, however, that Sportsman's could only get injunctive relief and was not entitled to "punitive damages . . . profits, and attorney's fees and costs" pursuant to the FTDA since Sporty Farm and Omega's conduct did not constitute willful dilution under the FTDA.[7] *Id.* at 292-93.

Finally, the district court ruled that, although Sporty's Farm had violated the FTDA, its conduct did not constitute a violation of CUTPA. This conclusion was based on the district court's finding that Sportsman's had failed to show by a preponderance of the evidence (1) that Sporty's Farm and Omega's "conduct was immoral, unethical, oppressive, or unscrupulous," and (2) that Sportsman's "suffered a substantial injury sufficient to establish a CUTPA claim." *Id.* at 291-92.

The district court then issued an injunction forcing Sporty's Farm to relinquish all rights to sportys.com. And Sportsman's subsequently acquired the domain name. Both Sporty's Farm and Sportsman's appeal.[8] Specifically,

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7. The FTDA does not provide for punitive damages. It does, however, contemplate treble damages. *See* 15 U.S.C. § 1125(c)(2); § 1117(b).

8. Omega has not appealed since it prevailed on all the claims made against it by Sportsman's.

Sporty's Farm appeals the judgment insofar as the district court granted an injunction in favor of Sportsman's for the use of the domain name. Sportsman's, on the other hand, in addition to urging this court to affirm the district court's injunction, cross-appeals, quite correctly as a procedural matter, the district court's denial of damages under both the FTDA and CUPTA. *See* 16A Charles Alan Wright, Arthur R. Miller, Edward H. Cooper, *Federal Practice and Procedure* § 3974.4 (3d ed. 1999) ("[A] cross-appeal is required to support modification of the judgment . . . .").

III

As we noted above, while this appeal was pending, Congress passed the ACPA. That law was passed "to protect consumers and American businesses, to promote the growth of online commerce, and to provide clarity in the law for trademark owners by prohibiting the bad-faith and abusive registration of distinctive marks as Internet domain names with the intent to profit from the goodwill associated with such marks — a practice commonly referred to as 'cybersquatting'." S. Rep. No. 106-140, at 4. In particular, Congress viewed the legal remedies available for victims of cybersquatting before the passage of the ACPA as "expensive and uncertain." H.R. Rep. No. 106-412, at 6. The Senate made clear its view on this point:

> While the [FTDA] has been useful in pursuing cybersquatters, cybersquatters have become increasingly sophisticated as the case law has developed and now take the necessary precautions to insulate themselves from liability. For example,

> many cybersquatters are now careful to no longer offer the domain name for sale in any manner that could implicate liability under existing trademark dilution case law. And, in cases of warehousing and trafficking in domain names, courts have sometimes declined to provide assistance to trademark holders, leaving them without adequate and effective judicial remedies. This uncertainty as to the trademark law's application to the Internet has produced inconsistent judicial decisions and created extensive monitoring obligations, unnecessary legal costs, and uncertainty for consumers and trademark owners alike.

S. Rep. No. 106-140, at 7. In short, the ACPA was passed to remedy the perceived shortcomings of applying the FTDA in cybersquatting cases such as this one.

The new act accordingly amends the Trademark Act of 1946, creating a specific federal remedy for cybersquatting. New 15 U.S.C. § 1125(d)(1)(A) reads:

> A person shall be liable in a civil action by the owner of a mark, including a personal name which is protected as a mark under this section, if, without regard to the goods or services of the parties, that person —
>
> > (i) has a bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section; and

(ii) registers, traffics in, or uses a domain name that —

> (I) in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark;
>
> (II) in the case of a famous mark that is famous at the time of registration of the domain name, is identical or confusingly similar to or dilutive of that mark; . . .

The Act further provides that "a court may order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark," 15 U.S.C. § 1125(d)(1)(C), if the domain name was "registered before, on, or after the date of the enactment of this Act," Pub. L. No. 106-113, § 3010. It also provides that damages can be awarded for violations of the Act,[9] but that they are not "available with respect to the registration, trafficking, or use

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9. The new Act permits a plaintiff to "elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits, an award of statutory damages in the amount of not less than $1,000 and not more than $100,000 per domain name, as the court considers just." Pub. L. No. 106-113, § 3003. If the plaintiff does not so elect, the court may award damages under 15 U.S.C. § 1117(a) and (b), based on damages, profits, and the cost of the action. *See id.*

of a domain name that occurs before the date of the enactment of this Act." *Id.*

DISCUSSION

This case has three distinct features that are worth noting before we proceed further. First, our opinion appears to be the first interpretation of the ACPA at the appellate level. Second, we are asked to undertake the interpretation of this new statute even though the district court made its ruling based on the FTDA. Third, the case before us presents a factual situation that, as far as we can tell, is rare if not unique: A Competitor X of Company Y has registered Y's trademark as a domain name and then transferred that name to Subsidiary Z, which operates a business wholly unrelated to Y. These unusual features counsel that we decide no more than is absolutely necessary to resolve the case before us.

A. *Application of the ACPA to this Case*

The first issue before us is whether the ACPA governs this case. The district court based its holding on the FTDA since the ACPA had not been passed when it made its decision. Because the ACPA became law while this case was pending before us, we must decide how its passage affects this case. As a general rule, we apply the law that exists at the time of the appeal. *See, e.g.*, *Hamm v. City of Rock Hill*, 379 U.S. 306, 312-13 (1964) (" '[I]f subsequent to the judgment and before the decision of the appellate court, a law intervenes and positively changes the rule which governs, the law must be obeyed, or its obligation denied.' " (quoting *United States v. Schooner Peggy*, 5 U.S. (1 Cranch) 103, 110 (1801))).

But even if a new law controls, the question remains whether in such circumstances it is more appropriate for the appellate court to apply it directly or, instead, to remand to the district court to enable that court to consider the effect of the new law. We therefore asked for additional briefing from the parties regarding the applicability of the ACPA to the case before us. After receiving those briefs and fully considering the arguments there made, we think it is clear that the new law was adopted specifically to provide courts with a preferable alternative to stretching federal dilution law when dealing with cybersquatting cases. Indeed, the new law constitutes a particularly good fit with this case. Moreover, the findings of the district court, together with the rest of the record, enable us to apply the new law to the case before us without difficulty. Accordingly, we will do so and forego a remand.

B. *"Distinctive" or "Famous"*

Under the new Act, we must first determine whether *sporty's* is a distinctive or famous mark and thus entitled to the ACPA's protection. *See* 15 U.S.C. § 1125(d)(1)(A)(ii)(I), (II). The district court concluded that *sporty's* is both distinctive and famous. We agree that *sporty's* is a "distinctive" mark. As a result, and without casting any doubt on the district court's holding in this respect, we need not, and hence do not, decide whether *sporty's* is also a "famous" mark.[10]

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10. In most respects, *sporty's* meets the rigorous criteria laid out in § 1125(c)(1), requiring both fame and distinctiveness for protection under the FTDA. *See Nabisco Brands, Inc., v. PF Brands, Inc.*, 191 F.3d 208, 216 (2d Cir. 1999). The mark (1) is sufficiently

(Cont'd)

Distinctiveness refers to inherent qualities of a mark and is a completely different concept from fame. A mark may be distinctive before it has been used — when its fame is nonexistent. By the same token, even a famous mark may be so ordinary, or descriptive as to be notable for its lack of distinctiveness. *See Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 215-26 (2d Cir. 1999). We have no doubt that *sporty's*, as used in connection with Sportsman's catalogue of merchandise and advertising, is inherently distinctive. Furthermore, Sportsman's filed an affidavit under 15 U.S.C. § 1065 that rendered its registration of the *sporty's* mark incontestable, which entitles Sportsman's "to a presumption that its registered trademark is inherently distinctive." *Equine*

(Cont'd)
distinctive (as we discuss in the text), (2) has been used by Sportsman's for an extended period of time, (3) has had millions of dollars in advertising spent on it, (4) is used nationwide, and (5) is traded in a wide variety of retail channels. *See* 15 U.S.C. § 1125(c)(1)(A)-(E). Moreover, the record does not indicate that anyone else besides Sportsman's uses *sporty's*, and the mark is, of course, registered with federal authorities. *See id.* at § 1125(c)(1)(G)-(H).

More vexing is the question posed by the criterion that focuses on "the degree of recognition of the mark in the trading areas and channels of trade used by the marks' owner and the person against whom the injunction is sought." *Id.* at § 1125(c)(1)(F). Sporty's Farm contends that, although *sporty's* is a very well-known mark in the pilot and aviation niche market, Sportsman's did not (and could not) prove that the mark was well-known to *Sporty's Farm's* customers. We need not reach this question, as we would have had to do under the FTDA, since the ACPA provides protection not only to famous marks but also to distinctive marks regardless of fame.

Techs., Inc. v. Equitechnology, Inc., 68 F.3d 542, 545 (1st Cir. 1995). We therefore conclude that, for the purposes of § 1125(d)(1)(A)(ii)(I), the *sporty's* mark is distinctive.

C. *"Identical and Confusingly Similar"*

The next question is whether domain name sportys.com is "identical or confusingly similar to" the *sporty's* mark.[11] 15 U.S.C. § 1125(d)(1)(A)(ii)(I). As we noted above, apostrophes cannot be used in domain names. *See supra* note 2. As a result, the secondary domain name in this case (sportys) is indistinguishable from the Sportsman's trademark (*sporty's*). *Cf. Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1055 (9th Cir. 1999) (observing that the differences between the mark "MovieBuff" and the domain name "moviebuff.com" are "inconsequential in light of the fact that Web addresses are not caps-sensitive and that the '.com' top-level domain signifies the site's commercial nature"). We therefore conclude that, although the domain name sportys.com is not precisely identical to the *sporty's* mark, it is certainly "confusingly similar" to the protected mark under § 1125(d)(1)(A)(ii)(I). *Cf. Wella Corp. v. Wella Graphics, Inc.* 874 F. Supp. 54, 56 (E.D.N.Y. 1994) (finding the new mark "Wello" confusingly similar to the trademark "Wella").

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11. We note that "confusingly similar" is a different standard from the "likelihood of confusion" standard for trademark infringement adopted by this court in *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir. 1961). *See Wella Corp. v. Wella Graphics, Inc.*, 37 F.3d 46, 48 (2d Cir. 1994).

D. *"Bad Faith Intent to Profit"*

We next turn to the issue of whether Sporty's Farm acted with a "bad faith intent to profit" from the mark *sporty's* when it registered the domain name sportys.com. 15 U.S.C. § 1125(d)(1)(A)(i). The statute lists nine factors to assist courts in determining when a defendant has acted with a bad faith intent to profit from the use of a mark.[12] But we are not

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12. These factors are:

> (I) the trademark or other intellectual property rights of the person, if any, in the domain name;
>
> (II) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person;
>
> (III) the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services;
>
> (IV) the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name;
>
> (V) the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site;
>
> (VI) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third

(Cont'd)

limited to considering just the listed factors when making our determination of whether the statutory criterion has been met. The factors are, instead, expressly described as indicia that "may" be considered along with other facts. *Id.* § 1125(d)(1)(B)(i).

(Cont'd)

> party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct;
>
> (VII) the person's provision of material and misleading false contact information when applying for the registration of the domain name, the person's intentional failure to maintain accurate contact information, or the person's prior conduct indicating a pattern of such conduct;
>
> (VIII) the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and
>
> (IX) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous within the meaning of subsection(c)(1) of section 43.

15 U.S.C. § 1125(d)(1)(B)(i).

We hold that there is more than enough evidence in the record below of "bad faith intent to profit" on the part of Sporty's Farm (as that term is defined in the statute), so that "no reasonable factfinder could return a verdict against" Sportsman's. *Norville v. Staten Island Univ. Hosp.*, 196 F.3d 89, 95 (2d Cir. 1999). First, it is clear that neither Sporty's Farm nor Omega had any intellectual property rights in sportys.com at the time Omega registered the domain name. *See id.* § 1125(d)(1)(B)(i)(I). Sporty's Farm was not formed until nine months after the domain name was registered, and it did not begin operations or obtain the domain name from Omega until after this lawsuit was filed. Second, the domain name does not consist of the legal name of the party that registered it, Omega. *See id.* § 1125(d)(1)(B)(i)(II). Moreover, although the domain name does include part of the name of Sporty's Farm, that entity did not exist at the time the domain name was registered.

The third factor, the prior use of the domain name in connection with the bona fide offering of any goods or services, also cuts against Sporty's Farm since it did not use the site until after this litigation began, undermining its claim that the offering of Christmas trees on the site was in good faith. *See id.* § 1125(d)(1)(B)(i)(III). Further weighing in favor of a conclusion that Sporty's Farm had the requisite statutory bad faith intent, as a matter of law, are the following: (1) Sporty's Farm does not claim that its use of the domain name was "noncommercial" or a "fair use of the mark," *see id.* § 1125(d)(1)(B)(i)(IV), (2) Omega sold the mark to Sporty's Farm under suspicious circumstances, *see Sporty's Farm v. Sportsman's Market*, No. 96CV0756 (D. Conn. Mar. 13, 1998), *reprinted in* Joint Appendix at

A277 (describing the circumstances of the transfer of sportys.com); 15 U.S.C. § 1125(d)(1)(B)(i)(VI), and, (3) as we discussed above, the *sporty's* mark is undoubtedly distinctive, *see id.* § 1125(d)(1)(B)(i)(IX).

The most important grounds for our holding that Sporty's Farm acted with a bad faith intent, however, are the unique circumstances of this case, which do not fit neatly into the specific factors enumerated by Congress but may nevertheless be considered under the statute. We know from the record and from the district court's findings that Omega planned to enter into direct competition with Sportsman's in the pilot and aviation consumer market. As recipients of Sportsman's catalogs, Omega's owners, the Hollanders, were fully aware that *sporty's* was a very strong mark for consumers of those products. It cannot be doubted, as the court found below, that Omega registered sportys.com for the primary purpose of keeping Sportsman's from using that domain name. Several months later, and after this lawsuit was filed, Omega created another company in an unrelated business that received the name Sporty's Farm so that it could (1) use the sportys.com domain name in some commercial fashion, (2) keep the name away from Sportsman's, and (3) protect itself in the event that Sportsman's brought an infringement claim alleging that a "likelihood of confusion" had been created by Omega's version of cybersquatting. Finally, the explanation given for Sporty's Farm's desire to use the domain name, based on the existence of the dog Spotty, is more amusing than credible. Given these facts and the district court's grant of an equitable injunction under the FTDA, there is ample and overwhelming evidence that, as a matter of law, Sporty's Farm's acted with a "bad faith intent

to profit" from the domain name sportys.com as those terms are used in the ACPA.[13] *See Luciano v. Olsten Corp.*, 110 F.3d 210, 214 (2d Cir. 1997) (stating that, as a matter of law, judgment may be granted where "the evidence in favor of the movant is so overwhelming that 'reasonable and fair minded [persons] could not arrive at a verdict against [it].' " (quoting *Cruz v. Local Union No. 3*, 34 F.3d 1148, 1154 (2d Cir. 1994) (alteration in original))).

E. *Remedy*

Based on the foregoing, we hold that under § 1125(d)(1)(A), Sporty's Farm violated Sportsman's statutory rights by its use of the sportys.com domain name.[14] The question that remains is what remedy is Sportsman's entitled to. The Act permits a court to "order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark," § 1125(d)(1)(C) for any "domain name[ ] registered before, on, or after the date of the enactment of [the] Act," Pub. L. No. 106-113,

13. We expressly note that "bad faith intent to profit" are terms of art in the ACPA and hence should not necessarily be equated with "bad faith" in other contexts.

14. The statute provides that a party "shall be *liable* in a civil action by the owner of a mark" if it meets the statutory requirements. 15 U.S.C. § 1125(d)(1)(A) (emphasis added). Although the statute uses the term "liable," it does not follow that damages will be assessed. As we discuss below, damages can be awarded for violations of the Act but they are not "available with respect to the registration, trafficking, or use of a domain name that occurs [,as in this case,] before the date of the enactment of this Act." Pub. L. No. 106-113, § 3010.

§ 3010. That is precisely what the district court did here, albeit under the pre-existing law, when it directed a) Omega and Sporty's Farm to release their interest in sportys.com and to transfer the name to Sportsman's, and b) permanently enjoined those entities from taking any action to prevent and/or hinder Sportsman's from obtaining the domain name. That relief remains appropriate under the ACPA. We therefore affirm the district court's grant of injunctive relief.

We must also determine, however, if Sportsman's is entitled to damages either under the ACPA or pre-existing law. Under the ACPA, damages are unavailable to Sportsman's since sportys.com was registered and used by Sporty's Farm prior to the passage of the new law. *See id.* (stating that damages can be awarded for violations of the Act but that they are not "available with respect to the registration, trafficking, or use of a domain name that occurs before the date of the enactment of this Act.").

But Sportsman's might, nonetheless, be eligible for damages under the FTDA since there is nothing in the ACPA that precludes, in cybersquatting cases, the award of damages under any pre-existing law. *See* 15 U.S.C § 1125(d)(3) (providing that any remedies created by the new act are "in addition to any other civil action or remedy otherwise applicable"). Under the FTDA, "[t]he owner of the famous mark shall be entitled only to injunctive relief unless the person against whom the injunction is sought *willfully* intended to trade on the owner's reputation or to cause dilution of the famous mark." *Id.* § 1125(c)(2) (emphasis added). Accordingly, where willful intent to dilute is demonstrated, the owner of the famous mark is — subject to

the principles of equity — entitled to recover (1) damages (2) the dilutor's profits, and (3) costs. *See id.*; *see also id.* § 1117(a) (specifying remedies).

We conclude, however, that damages are not available to Sportsman's under the FTDA. The district court found that Sporty's Farm did not act willfully. We review such findings of "willfulness" by a district court for clear error. *See Bambu Sales, Inc. v. Ozak Trading Inc.*, 58 F.3d 849, 854 (2d Cir. 1995). Thus, even assuming the *sporty's* mark to be famous, we cannot say that the district court clearly erred when it found that Sporty's Farm's actions were not willful. To be sure, that question is a very close one, for the facts make clear that, as a Sportsman's customer, Arthur Hollander (Omega's owner) was aware of the significance of the *sporty's* logo. And the idea of creating a Christmas tree business named Sporty's Farm, allegedly in honor of Spotty the dog, and of giving that business the sportys.com domain name seems to have occurred to Omega only several months after it had registered the name. Nevertheless, given the uncertain state of the law at the time that Sporty's Farm and Omega acted, we cannot say that the district court clearly erred in finding that their behavior did not amount to willful dilution. It follows that Sportsman's is not entitled to damages under the FTDA.

Sportsman's also argues that it is entitled to damages under state law. Because neither the FTDA nor the ACPA preempts state remedies such as CUTPA, damages under Connecticut law are not barred, and hence may be available to Sportsman's. *See* H.R. Rep. No. 104-374, at 4 (1995), *reprinted in* 1996 U.S.C.C.A.N. 1029, 1031; 15 U.S.C. § 1125(d)(3).

Appendix A

CUTPA, Conn. Gen. Stat. Ann. § 42-110b(a) (West Supp. 1999), states that "[n]o person shall engage in unfair methods of competition and unfair or deceptive acts or practices in the conduct of any trade or commerce." In construing this statute, the Connecticut courts have applied the so-called "cigarette rule"[15] which asks:

> (1) [W]hether the practice, without necessarily having been previously considered unlawful, offends public policy as it has been established by statutes, the common law, or otherwise-whether, in other words, it is within at least the penumbra of some common law, statutory, or other established concept of unfairness; (2) whether it is immoral, unethical, oppressive, or unscrupulous; (3) whether it causes substantial injury to consumers [competitors or other businessmen] . . . .

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15. The "cigarette rule" was originally adopted by the Federal Trade Commission in 1964. *See* Statement of Basis and Purpose of Trade Regulation Rule 408, Unfair or Deceptive Advertising and Labeling of Cigarettes in Relation to the Health Hazards of Smoking, 29 Fed. Reg. 8324, 8355 (1964), *see also FTC v. Sperry & Hutchinson Co.*, 405 U.S. 233, 244-45 n.5 (1972). This rule was later adopted by the Connecticut Supreme Court in *Conaway v. Prestia*, 191 Conn. 484, 464 A.2d 847 (1983), after the Connecticut legislature directed the Connecticut courts to "be guided by interpretations given by the Federal Trade Commission and the federal courts to Section 5(a)(1) of the Federal Trade Commission Act," when determining what constituted an unfair trade practice. Conn. Gen. Stat. Ann. § 42-110b(b) (West Supp. 1999); *see McLaughlin Ford, Inc. v. Ford Motor Co.*, 192 Conn. 558, 567-68, 473 A.2d 1185, 1191 (1984).

> All three criteria do not need to be satisfied to support a finding of unfairness. A practice may be unfair because of the degree to which it meets one of the criteria or because to a lesser extent it meets all three . . . .

Saturn Const. Co. v. Premier Roofing Co., 238 Conn. 293, 310-11, 680 A.2d 1274, 1283 (1996) (internal quotation marks omitted).

We have no doubt that an ACPA violation meets the requirements of prong one of the cigarette rule test. But, despite our finding that Sporty's Farm acted with a bad faith intent, we do not think that its conduct meets prong two. While Sporty's Farm and Omega intended to do what they did, until today's holding interpreting the new ACPA, the line between business tactics with respect to domain name use that were unfair and those that, if hard-nosed, were nonetheless legitimate was blurry. Under the circumstances, we do not believe that the district court erred when it found that their conduct should not retrospectively be termed "immoral, unethical, oppressive, or unscrupulous." Moreover, prong three also cuts against a violation of CUTPA. Although the use of sportys.com and Sportsman's inability to use its trademark as a domain name injured Sportsman's, we cannot say that the record supports the additional contention that this injury was substantial enough to meet CUTPA's requirements.

This does not, however, end our inquiry since the three prongs of the cigarette rule test need not all be met to find that unfair competition took place. Nevertheless, after

weighing the cigarette rule factors, we conclude — as the district court did — that the actions of Sporty's Farm and Omega did not contravene CUTPA. Although the removal of sportys.com from Sportsman's was designed to give Omega what we would now deem to be an unfair competitive advantage, we cannot say that this behavior was so unseemly at the time it occurred that Sporty's Farm and Omega should be found liable under state law.

In sum, then, we hold that the injunction issued by the district court was proper under the new anticybersquatting law, but that damages are not available to Sportsman's under the ACPA, the FTDA, or CUTPA.

F. *Retroactivity*

Sporty Farm's also contends that even if its actions would today violate the FTDA or the ACPA, any injunction requiring it to relinquish use of sportys.com is impermissibly retroactive.[16] We find Sporty's Farm's position to be meritless.

In *Landgraf v. USI Film Prods.*, 511 U.S. 244, 273 (1994), the Supreme Court stated: "application of new statutes passed after the events in suit is unquestionably proper in many situations. When the intervening statute

16. The district court rejected the retroactivity argument on the ground that Sporty's Farm did not begin using sportys.com until after the FTDA came into effect. Since Sporty's Farm's retroactivity claim fails even if we analyze the issue as of the time when it initially contracted to acquire the domain name, we express no view on whether the district court's reference point was, in fact, the correct one.

authorizes or affects the propriety of prospective relief, application of the new provision is not retroactive." In *Viacom Inc. v. Ingram Enterprises, Inc.*, 141 F.3d 886, 889 (8th Cir. 1998), the Eighth Circuit reasoned that trademark dilution was a continuing wrong, and therefore relief sought under the FTDA was prospective under *Landgraf* even if the use of the trademark began before the enactment of the statute. *See United States v. Trans-Missouri Freight Ass'n*, 166 U.S. 290, 342 (1897) ("Assuming such action to have been legal at the time the agreement was first entered into, the continuation of the agreement, after it has been declared to be illegal, becomes a violation of [law]."). Similarly, the injunction that was issued in this case provided only prospective relief to Sportsman's. Since it did no more than avoid the continuing harm that would result from Sporty's Farm's use the domain name, there is no retroactivity problem.[17]

CONCLUSION

The judgment of the district court is AFFIRMED in all particulars.

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17. For the first time on appeal, Sporty's Farm argues that the district court's application of the FTDA constituted an unconstitutional taking of its property in sportys.com. We deem this argument waived. In the alternative, Sporty's Farm contends that the district court's injunction was inequitable because it deprived Sporty's Farm of its lawfully acquired interest in sportys.com and hence was issued in violation of 15 U.S.C. § 1125(c)(1), which provides that injunctions are "subject to the principles of equity and upon such terms as the court deems reasonable." The argument is meritless. The same facts that led us to find that Sporty's Farm is liable under the ACPA preclude, in the circumstances before us, any inequity in depriving Sporty's Farm of the domain name in issue.

APPENDIX B — MEMORANDUM OF DECISION OF THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF CONNECTICUT DATED AND FILED MARCH 13, 1998

UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

Civil No. 3:96CV0756 (AVC)

SPORTY'S FARM, LLC,

Plaintiff and Counterclaim Defendant,

VS.

SPORTSMAN'S MARKET, INC.,

Defendant and Counterclaim Plaintiff
and Third-Party Plaintiff,

VS.

OMEGA ENGINEERING, INC.

Third-Party Defendant.

MEMORANDUM OF DECISION

This is an action for declaratory and injunctive relief brought pursuant to 28 U.S.C. § 2201. It arises under the Lanham Act, 15 U.S.C. § 1051 *et seq.*, and concerns the validity of the plaintiff's use of an Internet domain name. By way of amended counterclaim, the defendant avers that

the plaintiff has violated numerous sections of the Lanham Act, the Connecticut Unfair Trade Practices Act, Conn. Gen. Stat. § 42-110(b) *et seq.*, ("CUTPA") and common law tenets concerning trademark infringement and unfair competition. The amended counterclaim seeks injunctive relief, punitive damages, the plaintiff's profits, and attorney's fees and costs.[1]

All of these causes of action were tried to the court on March 3 and 4, 1998. For the reasons herein set forth, the court finds for the plaintiff in part and the defendant in part.

FACTS

The court finds the following:

Sporty's Farm, LLC ("Sporty's Farm"), is a limited liability company organized under the laws of Pennsylvania with its principal place of business in Sterling, Pennsylvania. Sporty's Farm is a Christmas tree farm. It is engaged in the business of harvesting trees, the sale of trees to landscapers and the sale of Christmas trees to wholesalers. Sporty's Farm advertises solely on the Internet and has no catalog or mail order sales.

Sportsman's Market, Inc. ("Sportsman's Market"), is a corporation organized under the laws of Ohio with its principal place of business at the Clermont County Airport

1. The defendant Sportsman's Market brought a third-party action against Omega Engineering, Inc., in which it alleges the same causes of action it alleged against Sporty's Farm. The court will address the claims together.

in Batavia, Ohio. Sportsman's Market, well known in aviation circles for decades, is in the mail order catalog business. Although its principle focus is on aviation related products, it currently publishes five catalogs: Sporty's Pilot Shop, Sporty's Pilot Shop — Europa, Sporty's Preferred Living, Sporty's Tool Shop, and Wright Bros. Collection from Sporty's. Sportsman's Market has registered, among other names, "sportys-catalogs.com" as its domain name on the Internet with hypertext links to its various catalogs.

Sportsman's Market has used the term "Sporty's" for over thirty years. In 1963, Harold Shevers, Jr., founder and President of Sportsman's Market and its predecessor in interest, registered a logo featuring the word "Sporty" with the United States Patent and Trademark Office ("PTO"). In 1967, it incorporated. In 1985, Sportsman's Market secured federal registration of the mark "Sporty's" with the PTO. In 1990, Sportsman's Market filed an affidavit, as required by 15 U.S.C. § 1065, which was accepted by the PTO representing that it had used the "Sporty's" mark for five years and thus the mark was rendered incontestable.

Sportsman's Market sends out approximately 18 million catalogs a year, processes approximately 600,000 orders a year, and has annual revenues of approximately $50 million dollars. Of the 18 million catalogs, 7.5 million are aviation catalogs and 10.5 million are non-aviation catalogs. Aviation related sales, however, account for 60 percent of the companies gross revenues. The "Sporty's" mark appears on the cover of all of the Sportsman's Market's catalogs. Sportsman's Market spends approximately $10 million dollars a year on advertising. In addition to catalog sales,

Appendix B

Sportsman's Market has the international toll free number 1-800-4sportys.

There is a low frequency non-directional radio beacon located at the Clermont County Airport used in connection with aircraft radio navigation. Federal authorities have designated the beacon's identifier, *inter alia*, as "SPORTYS".

In addition to its aviation business, Sportsman's Market sells numerous other items, including general merchandise for the home and tools. The "Sporty's" mark has become widely known and associated in the minds of the public with Sportsman's Market and its high quality products and reputation for excellence. The mark serves as a unique identifier for Sportsman's Market's products.

Omega Engineering, Inc. ("Omega"), the third-party defendant, is a corporation organized under the laws of Delaware with its principal place of business in Stamford, Connecticut. It is a manufacturer and seller of scientific process measurement and control instruments. Omega has fourteen subsidiaries and fifty affiliates. Omega formed Sporty's Farm and the principals of Omega own the Pennsylvania land where Sporty's Farm operates. Omega is also in the catalog business.

From the predicate facts presented, it is reasonable to conclude that sometime in late 1994 and/or early 1995, Milton Hollander and his wife Betty R. Hollander, owners and directors of Omega, decided to enter into the pilot catalog mail order business. At the time, Hollander, a pilot, knew of

the defendant Sportsman's Market and its pilot shop catalog. Hollander was on the Pilot Shop catalog mailing list.

In January 1995, Hollander, through Ralph S. Michel, the Vice President and Chief Financial Officer of Omega, purchased and or formed Pilot's Depot, LLC, an entity created to directly compete with Sportsman's Market in the pilot supply business. Pilot's Depot is a limited liability company organized under the laws of Delaware with its principal places of business in Pennsylvania and Connecticut.

In April 1995, Omega registered the domain name "sportys.com" on the Internet. In June 1995, Pilot's Depot filed an application for the registration of the trademark "Pilot's Depot" with the United States Patent and Trademark Office. The application sought trademark registration for the following goods: "Books, charts and catalogs featuring aviation and aerospace merchandise including such items as electronic instruments, survival equipment, printed matter, clothing and luggage." In November 1995, Omega on behalf of Pilot's Depot registered the name "pilotsdepot.com" as an Internet domain name.

In January 1996, nine months after registering the domain name "sportys.com", Omega, through Milton Hollander and Betty R. Hollander, formed Sporty's Farm, LLC.[2] Sporty's Farm is a Christmas tree farm. By way of an

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2. Ralph S. Michel, the VP and CFO of Omega and also the manager of Sporty's Farm, selected the name Sporty's Farm. Michel testified that in his own mind and among his family, he always thought of and referred to the Pennsylvania land where Sporty's (Cont'd)

agreement dated January 12, 1996, Omega agreed to transfer the domain name "sportys.com" to Sporty's Farm in consideration for $16,200, upon the issuance of the certificate of organization. Sometime in May 1996, Omega transferred the domain name to Sporty's Farm. In May 1996, the domain name became operational and Sporty's Farm started to advertise its Christmas trees on the Internet.

In March 1996, Sportsman's Market discovered that Omega had registered its mark, Sporty's, as a domain name. Sportsman's Market contacted Omega and demanded that Omega cease using the domain name. Omega refused. On April 29, 1996, Sporty's Farm commenced the instant action.

DISCUSSION

Sporty's Farm and Sportsman's Market both seek permanent injunctive relief. Sporty's Farm seeks an order from the court declaring that its use of the domain name "sportys.com" does not infringe Sportsman's Market's mark and that Sporty's Farm has the right to maintain that domain name.

Sportsman's Market, for its part, seeks, an order from the court enjoining Sporty's Farm from, *inter alia*, continuing

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(Cont'd)
Farm now operates as Spotty's farm. The origin of the name, Michel explained, derived from a childhood memory he had of his uncle's farm in upstate New York. As a youngster, Michel owned a dog named Spotty. Because the dog strayed, his uncle took him to his upstate farm. Michel thereafter referred to the farm as Spotty's farm. The name Sporty's Farm was purportedly a subsequent derivation.

to use the domain name "sportys.com" on the Internet and, in the future, from using or applying to register "sporty's" or any word or combination thereof, as a trademark or business mark in connection with the sale, advertising, or promotion of any product.

I. *Infringement, Unfair Competition, and False Designation*

Sporty's Farm first claims that its use of "sportys.com" as its Internet domain name does not infringe the Sportsman's Market's mark. Specifically, Sporty's Farm argues that Sportsman's Market does not have a protected interest in the name "Sporty's", its sale of Christmas trees is wholly unrelated to Sportsman's Market's catalog business, its use of the "sportys.com" domain name does not cause confusion in the marketplace, and that it registered the name in good faith and without intention to trade upon Sportsman's Market's reputation.

In response, Sportsman's Market argues that Sporty's Farm is seeking to benefit from the favorable reputation and valuable goodwill which Sportsman's Market has established in its mark. Specifically, Sportsman's Market contends that Sporty's Farm's use of the "sportys.com" domain name infringes its mark and that Sporty's Farm's continued use of the domain name causes confusion in the marketplace.

To succeed on a claim of trademark infringement, either under the Lanham Act, 15 U.S.C. § 1114(1), or the common law, the plaintiff must establish that "it has a valid mark entitled to protection and that the . . . [offending party's] use of it is likely to cause confusion." *Arrow Fastener Co.,*

Inc. v. Stanley Works, 59 F.3d 384, 390 (2d Cir. 1995) (citation omitted).

Section 1114(1) provides in relevant part: "Any person who shall, without the consent of the registrant — (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion . . . shall be liable [for infringement]." 15 U.S.C. § 1114(1)(a).

Title 15 U.S.C. § 1125(a)(1), establishing a cause of action for false designation, provides in relevant part:

> "[a]ny person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading designation of fact . . . which — (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . . shall be liable in a civil action by any person who believes that he or she is likely to be damaged by such act."

The difference between 15 U.S.C. § 1114 and 15 U.S.C. § 1125(a) is that § 1125(a) is not limited to the uses of

registered trademarks. "Although enacted as part of the Trademark Act, . . . [§ 1125(a)] functions as a federal law of unfair competition for unregistered goods." *Coach Leatherware Co., Inc. v. AnnTaylor, Inc.*, 933 F.2d 162, 168 (2d Cir. 1991). Likelihood of confusion is the essential element for claims brought under § 1114(1), § 1125(a), and the common law. *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 631 F. Supp. 735, 740 (S.D.N.Y. 1985), *aff'd*, 799 F.2d 867 (2d Cir. 1986).

In determining whether a likelihood of confusion exists, the Second Circuit set forth eight factors to be considered in *Polaroid Corp. v. Polarad Elecs.*, 287 F.2d 492, 495-96 (2d Cir.), *cert. denied*, 368 U.S. 820 (1961). The factors are: (1) the strength of the mark; (2) the degree of similarity; (3) the proximity of the products; (4) the likelihood that the prior owner of the mark will "bridge the gap" between its products and the products of the infringer; (5) actual confusion; (6) the alleged infringer's good faith in adopting its mark; (7) the quality of the alleged infringer's product; and (8) the sophistication of the buyers. *See id.* "For a finding of infringement a probability of confusion, not a mere possibility, must be found to exist." *Gruner + Jahn USA Pub. v. Meredith Corp.*, 991 F.2d 1072, 1077 (2d Cir. 1993) (citing McCarthy, *Trademarks* §§ 23:1[C], 23:2[B]). The *Polaroid* factors are not all encompassing, and additional factors may be considered or initial factors abandoned. *Gruner + Jahn*, 991 F.2d at 1077.

Analyzing the applicable *Polaroid* factors, the court concludes that Sporty's Farm's use of the "sportys.com" domain name is not likely to cause confusion.

First, no "actual confusion" exists between the products. Sporty's Farm is in the business of selling Christmas trees. Its business is wholly unrelated to Sportsman's Market's catalog mail order business, and Sporty's Farm's products are fundamentally distinct. Although Sportsman's Market sells Christmas tree stands and assorted ornaments in its catalogs, the likelihood that a consumer would be confused is at best merely a possibility, and not a probability. *See Gruner + Jahn USA Pub. v. Meredith Corp.*, 991 F.2d 1072, 1077 (2d Cir. 1993).

Next, Sportsman's Market has expressed no intention to "bridge the gap" and enter the market occupied by Sporty's Farm's product. Sportsman's Market is not in the business of selling Christmas trees and has offered no evidence to indicate that it is considering doing so. In addition, Shevers testified that Sportsman's Market has never sold any trees or agricultural products. Sporty's Farm also has no intention to "bridge the gap" and will agree that it will not use the "sportys.com" domain name for the sale of pilot's products or aviation products of any nature. Finally, the products are not similar, are not in competition in the marketplace, and are not sold in proximate channels of trade.

In support of its argument that confusion may develop, Sportsman's Market cites *Inset Systems, Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161 (D. Conn. 1996). In *Inset*, this court stated that:

> If a company uses a domain name which is identical to the name or trademark of a company, an Internet user may inadvertently access an

> unintended company. Thereafter, the Internet user may not realize that the advertisement is actually from an unintended company, or the Internet user may erroneously assume that the source of information is the intended company. As a result, confusion in the marketplace could develop.

Id. at 163. This case, however, is distinguishable.

In *Inset*, the plaintiff was in the business of developing and marketing computer software and other related services throughout the world and the defendant was in the business of providing computer technology and support to organizations throughout the world. Because the two companies were engaged in the computer business, although not exactly the same area of the business, the defendant's use of the plaintiff's mark as its domain name could result in confusion. *Inset* is distinguishable because in the present case the parties operate wholly unrelated businesses. Therefore, confusion in the marketplace is not likely to develop.[3]

As a result of the foregoing, the court concludes that Sporty's Farm's use of the domain name "sportys.com" to sell Christmas trees on the Internet does not cause confusion

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3. Moreover, Sporty's Farm conducted numerous keyword searches using different search engines. Sportsman's Market was consistently among the first ten search results to appear. The results clearly indicate that Sportsman's Market's presence on the Internet is substantial. Sportsman's Market has registered, among other names, "sportys-catalogs.com" as its domain name on the Internet with hypertext links to its various catalogs.

in the marketplace.[4] Accordingly, the court finds for the plaintiff Sporty's Farm on its declaratory judgment for non-infringement and for Sporty's Farm and the third-party defendant Omega Engineering, Inc. on the defendant Sportsman's Market's counterclaims for statutory and common law infringement, false designation and unfair competition.[5]

II. *Dilution*

Sportsman's Market also alleges a cause of action under the Lanham Act's antidilution provision, 15 U.S.C. § 1125(c). Specifically, Sportsman's Market argues that "Sporty's" is a distinctive and famous mark and that Sporty's Farm's use of its mark as Sporty's Farm's domain name constitutes dilution *per se*. In response, Sporty's Farm first contends that the Federal Trademark Dilution Act ("FTDA") does not apply retrospectively and, therefore, is not

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4. Because the issue of whether Sporty's Farm's use of the "sportys.com" domain name causes a "likelihood of confusion" in the consuming public is dispositive, the court does not address the issue of whether the mark is entitled to protection. *See Arrow Fastener Co., Inc. v. Stanley Works*, 59 F.3d 384, 390 (2d Cir. 1995).

5. To succeed on a claim for unfair competition, Sportsman's Market must allege "(1) an association of origin by the consumer between the mark and the first user, and (2) a likelihood of consumer confusion when the mark is applied to the second user's goods." *Forschner Group, Inc. v. Arrow Trading Co., Inc.*, 904 F. Supp. 1409, 1417 (S.D.N.Y. 1995). Because a claim for unfair competition requires a showing of likelihood of confusion, and in light of the court's conclusion that no confusion is likely to result, this claim fails.

applicable in this case.[6] Sporty's Farm also contends, assuming *arguendo* that the FTDA applies to this case, that "sporty's" is not a famous mark.

Prior to the adoption of the FTDA, a federal claim for the use of a trademark required a showing of a "likelihood of confusion." Under the FTDA, however, once it is determined that a mark is famous, a senior user need only show that its mark is diluted by the junior user's use of the same or similar mark. "Thus, the . . . [FTDA] significantly expanded the reach of the Lanham Act by creating new obligations, imposing new duties, and attaching new disabilities with respect to marks already adopted." *Circuit City Stores, Inc. v. OfficeMax*, 949 F. Supp. 409, 414 (E.D. Va. 1996).

Section 1125(c), provides in relevant part: "(1) The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this subsection." Thus, to prevail on a dilution claim, the plaintiff must show

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6. This argument is without merit. The Federal Trademark Dilution Act, 15 U.S.C. § 1125(c), became effective on January 16, 1996. On January 23, 1996, Sporty's Farm filed its certificate of organization with the state of Pennsylvania. In May 1996, Sporty's Farm began to use "sportys.com" as its domain name on the Internet. Clearly, the relief sought by Sportsman's Market is prospective and, thus, the FTDA is applicable in this case.

(1) ownership of a famous mark; and (2) dilution. *Intermatic, Inc. v. Toeppen*, 947 F. Supp. 1227 (N.D. Ill. 1996).

As a threshold matter, the Act's requirement that the offending conduct be a commercial use in commerce is clearly satisfied. Sporty's Farm's registration and use of the "sportys.com" domain name on the Internet to sell its christmas trees constitutes "commercial use". *See Panavision Int'l, L.P. v. Toeppen*, 945 F. Supp. 1296, 1303 (C.D. Cal. 1996). The "in commerce" requirement is satisfied by the very nature of the Internet, that is, a user's ability to access a web page by way of a domain name through the use of interstate telephone lines. *See Planned Parenthood Federation of America, Inc. v. Bucci*, 1997 WL 133313 (S.D.N.Y. March 19, 1997); *Intermatic, Inc. v. Toeppen*, 947 F. Supp. 1227 (N.D. Ill. 1996).

A. *Famous Mark*

In determining whether a mark is distinctive and famous, 15 U.S.C. § 1125(c) sets forth the following factors to be considered by the court:

> (A) the degree of inherent or acquired distinctiveness of the mark;
>
> (B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used;
>
> (C) the duration and extent of advertising and publicity of the mark;

(D) the geographical extent of the trading area in which the mark is used;

(E) the channels of trade for the goods or services with which the mark is used;

(F) the degree of recognition of the mark in the trading areas and channels of trade used by the marks' owner and the person against whom the injunction is sought; and

(G) the nature and extent of use of the same or similar marks by third parties.

(H) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.

15 U.S.C. § 1125(c)(1)(A)-(H).

Examples of marks found to be famous include: INTERMATIC, *Intermatic, Inc. v. Toeppen*, 947 F. Supp. 1227, 1239 (N.D. Ill. 1996) (federally registered mark and exclusive use for 50 years); and PANAVISION, *Panavision, Int'l L.P. v. Toeppen*, 945 F. Supp. 1296, 1302 (C.D. Ca. 1996) (continuous use since 1954); *but cf. King of the Mountain Sports v. Chrysler Corp.*, 968 F. Supp. 568 (D. Colo. 1997) (concluding "King of the Mountain" mark not famous under the FTDA).

The court finds that Sportsman's Market's mark, Sporty's, is distinctive and famous. Sportsman's Market has

used the term "Sporty's" for over thirty years. In 1963, Shevers, Sportsman's Market's founder, registered a logo featuring the word "Sporty" with the United States Patent and Trademark Office ("PTO"). In 1985, Sportsman's Market secured federal registration of the mark "Sporty's" with the PTO. In 1990, Sportsman's Market filed an affidavit, as required by 15 U.S.C. § 1065, which was accepted by the PTO representing that it had used the "Sporty's" mark for five years and thus the mark was rendered incontestable.

In addition, Sportsman's Market sends out worldwide approximately 18 million catalogs a year, processes approximately 600,000 orders a year, and has annual revenues of approximately $50 million dollars. The "Sporty's" mark appears on the cover of all of the Sportsman's Market's catalogs. Sportsman's Market spends approximately $10 million dollars a year on advertising. In addition to catalog sales, Sportsman's Market has the international toll free number 1-800-4sportys.

As further evidence of the distinctiveness of the "Sporty's" mark, the federal authorities have designated a low frequency non-directional radio beacon located at the Clermont County Airport, the place of Sportsman's Market's home office.

In support of its argument that "Sporty's" is not a famous mark and, therefore, not entitled to protection under the FTDA, Sporty's Farm cites *McCarthy on Trademarks and Unfair Competition* § 24:92 (4th ed. 1997). According to McCarthy, "[a]s a general matter, a trademark is sufficiently distinctive to be diluted by a nonconforming use if the mark

retains its source significance when encountered outside the context of the goods or services with which it is used by the trademark owner." McCarthy, *Trademarks* § 24:92 at 24-151.

While the "Sporty's" mark originally was associated solely with aviation products, today, Sportsman's Market has greatly expanded its business. Of the 18 million catalogs sent by Sportsman's Market last year, 7.5 million were aviation catalogs and 10.5 million were non-aviation catalogs. While aviation related sales account for 60 percent of the companies gross revenues, non-aviation sales account for 40 percent, or $20 million dollars in gross revenues. In addition to its aviation business, Sportsman's Market's sells numerous other items, including general merchandise for the home and tools.

The court concludes that the significance of the "Sporty's" mark is not limited to aviation products but, rather, that the "Sporty's" mark enjoys general name recognition in the consuming public. Based upon the foregoing, the court concludes that the "Sporty's" mark is distinctive and famous.

B. *Dilution*

The statute defines the term "dilution" to mean the "lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of (1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake, or deception." 15 U.S.C. § 1127. "Dilution is grounded on the idea that a trademark can lose its 'ability

. . . to clearly and unmistakably distinguish one source' through unauthorized use." *Hormel Foods Corp. v. Jim Henson Productions, Inc.*, 73 F.3d 497, 506 (2d Cir. 1996) (citing 3 *McCarthy on Trademarks and Unfair Competition* § 24.13[1][a] at 24-106 (3d ed. 1995)). Dilution can occur either by blurring its distinctiveness or tarnishing the mark. *Id.*; *McCarthy on Trademarks and Unfair Competition* § 24.114 at 24-208 (4th ed. 1997).

"Dilution by 'blurring' may occur where the defendant uses or modifies *the plaintiff's trademark to identify the defendant's goods and services*, raising the possibility that the mark will lose its ability to serve as a unique identifier of the plaintiff's product." *Hormel Foods*, 73 F.3d at 506 (citing *Deere & Co. v. MTD Prods., Inc.*, 41 F.3d 39, 43 (2d Cir. 1994) (emphasis in original).

This is exactly what has occurred in this case. Sporty's Farm's registration of the "sportys.com" domain name effectively compromises Sportsman's Market's ability to identify and distinguish its goods on the Internet. Although Sportsman's Market has registered and currently uses, among other domain names, "sportys-catalogs.com" as its domain name on the Internet, Sporty's Farm's use of Sportsman's Market's mark as its domain name precludes Sportsman's Market from using its "unique identifier" on the Internet. The result is the blurring of Sporty's Farm and Sportsman's Market and, thus, dilution of the mark. The court concludes that Sporty's Farm's use of the "sportys.com" domain name causes dilution.[7]

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7. As a result, the court does not address the further issue of tarnishment.

Accordingly, judgment may enter in favor of Sportsman's Market on its dilution claim.

III. *CUTPA*

Sportsman's Market also alleges a counterclaim under the Connecticut Unfair Trade Practices Act, Conn. Gen. Stat. § 42-110b *et seq.* Specifically, it argues that a violation of the Lanham Act is a *per se* violation of the CUTPA, and, notwithstanding the Lanham Act, Sporty's Farm's actions constitute a CUTPA violation. The plaintiff responds that it has not violated the CUTPA.

Section 42-110b(a) of the CUTPA provides that "[n]o person shall engage in unfair methods of competition and unfair or deceptive acts or practices in the conduct of any trade or commerce." It is well settled that the Connecticut Supreme Court has adopted the so-called "cigarette rule" developed by the Federal Trade Commission for determining when an act or practice is unfair under the CUTPA. *See Saturn Construction Co. v. Premier Roofing Co.*, 238 Conn. 293, 310, 680 A.2d 1274 (1996). According to the cigarette rule, a court must consider:

> (1) [W]hether the practice, without necessarily having been previously considered unlawful, offends public policy as it has been established by statutes, the common law, or otherwise — whether, in other words, it is within at least the penumbra of some common law, statutory, or other established concept of unfairness; (2) whether it is immoral, unethical, oppressive, or

> unscrupulous; (3) whether it causes substantial injury to consumers [competitors or other businessmen].
>
> All three criteria do not need to be satisfied to support a finding of unfairness. A practice may be unfair because of the degree to which it meets one of the criteria or because to a lesser extent it meets all three.

Id. at 310-11 (quoting *Jacobs v. Healey Ford-Subaru, Inc.*, 231 Conn. 707, 725-26, 652 A.2d 496 (1995)).

Sportsman's Market's argument that Sporty's Farm's violation of the Federal Trademark Dilution Act constitutes a *per se* violation of the CUTPA is misplaced. Although the court has concluded that Sporty's Farm's use of the "sportys.com" domain name violates the FTDA, the court must still consider the three factors of the so-called cigarette rule.

The court has found that Sporty's Farm purchased and/or formed Pilot's Depot to directly compete with Sportsman's Market in the pilot supply business. The court has also found that Omega registered "sportys.com" as a domain name prior to forming Sporty's Farm. But it is unclear whether Omega registered the domain name and formed Sporty's Farm for the purpose of: 1) depriving Sportsman's Market of the use of its mark as its domain name, 2) creating a hyperlink from "sportys.com" to "pilotsdepot.com" at some time in the future, 3) having Sporty's Farm sell and or transfer the domain name "sportys.com" to Pilot's Depot at some time

in the future, or 4) acquired it in good faith and without any intention to trade upon Sportsman's Market's reputation. The court concludes that Sportsman's Market has failed to show by a preponderance of the evidence that Sporty's Farm's conduct was immoral, unethical, oppressive, or unscrupulous. *See Saturn Construction Co. v. Premier Roofing Co.*, 238 Conn. at 310.

Finally, the court must consider the third criteria of the cigarette rule, that is, whether Sporty's Farm's conduct caused substantial injury to consumers. In order to establish a substantial injury, Sportsman's Market must show (a) that the injury is substantial; (b) that the injury is not outweighed by any countervailing benefits to the consumers or competition that the practice produces; and (c) that the injury is one that consumers, competitors, or other businessmen could not have reasonably avoided. *Chem-Tek, Inc. v. General Motors Corp.*, 816 F. Supp. 123, 130 (D. Conn. 1993); *Web Press Services Corp. v. New London Motors, Inc.*, 205 Conn. 479, 533 A.2d 1211, 1213-14 (1987). Although the court has already concluded that Sporty's Farm's use of Sportsman's Market's mark as its domain name causes dilution, Sportsman's Market has failed to prove by a preponderance of the evidence that it has suffered a substantial injury sufficient to establish a CUTPA claim.

Although all three criteria do not need to be satisfied to support a finding of unfairness, the court concludes that Sporty's Farm's use of the domain name in violation of the FTDA, in and of itself, does not constitute a violation of the CUTPA. Accordingly, judgment shall be entered in favor of Sporty's Farm on the CUTPA claim.

IV. *Relief*

Relief under 15 U.S.C. § 1125(c) is limited to "injunctive relief unless the person against whom the injunction is sought willfully intended to trade on the owner's reputation or to cause dilution of the famous mark. If such willful intent is proven, the owner of the famous mark shall also be entitled to the remedies set forth in sections 1117(a) and 1118 of this title, subject to the discretion of the court and the principles of equity." 15 U.S.C. § 1125(c)(2).

Sportsman's Market seeks injunctive relief, punitive damages, Sporty's Farm's profits, and attorney's fees and costs. The court concludes that Sportsman's Market's relief shall be limited to injunctive relief. Sportsman's Market has failed to prove that Sporty's Farm's use of its mark as a domain name was willful and, thus, is not entitled to the remedies set forth in § 1117(a).

CONCLUSION

For the foregoing reasons, Sportsman's Market is hereby granted the following permanent injunctive relief:

1. Pursuant to 15 U.S.C. § 1125(c), Sporty's Farm, and its officers, agents, servants, and employees, and those persons in privity or active concert or participation with Sporty's Farm, including but not limited to Omega Engineering, Inc. and its officers, agents, servants, and employees, who receive actual notice of this final judgment and permanent injunction are hereby directed to immediately release its interest in the Internet domain name

"sportys.com", and are permanently enjoined from taking any action to prevent and or hinder Sportsman's Market from obtaining the Internet domain name "sportys.com".

2. Sporty's Farm shall discontinue any and all use of the Sporty's mark.

3. The court will retain jurisdiction to enforce the requirements of this final judgment and permanent injunction.

4. No costs are to enter with respect to either party.

SO ORDERED, this 13th day of March, 1998, at Hartford, Connecticut.

s/ Alfred V. Covello
Alfred V. Covello
Chief United States District Judge

APPENDIX C — RELEVANT STATUTES

Anticybersquatting Consumer Protection Act Pub. L. 106-113 §§ 3001, 3002 and 3010

SEC. 3001. SHORT TITLE; REFERENCES.

(a) Short Title: This title may be cited as the "Anticybersquatting Consumer Protection Act".

(b) References to the Trademark Act of 1946: Any reference in this title to the Trademark Act of 1946 shall be a reference to the Act entitled "An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes", approved July 5, 1946 (*15 U.S.C. 1051* et seq.).

* * *

SEC. 3002. CYBERPIRACY PREVENTION.

(a) In General: Section 43 of the Trademark Act of 1946 (*15 U.S.C. 1125*) is amended by inserting at the end the following:

"(d)(1)(A) A person shall be liable in a civil action by the owner of a mark, including a personal name which is protected as a mark under this section, if, without regard to the goods or services of the parties, that person —

"(i) has a bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section; and

"(ii) registers, traffics in, or uses a domain name that —

"(I) in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark;

"(II) in the case of a famous mark that is famous at the time of registration of the domain name, is identical or confusingly similar to or dilutive of that mark; or

"(III) is a trademark, word, or name protected by reason of section 706 of title *18, United States Code, or section 220506* of title 36, United States Code.

"(B)(i) In determining whether a person has a bad faith intent described under subparagraph (A), a court may consider factors such as, but not limited to —

"(I) the trademark or other intellectual property rights of the person, if any, in the domain name;

"(II) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person;

"(III) the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services;

"(IV) the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name;

"(V) the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site;

"(VI) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct;

"(VII) the person's provision of material and misleading false contact information when applying for the registration of the domain name, the person's intentional failure to maintain accurate contact information, or the person's prior conduct indicating a pattern of such conduct;

"(VIII) the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and

"(IX) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous within the meaning of subsection (c)(1) of section 43.

Appendix C

"(ii) Bad faith intent described under subparagraph (A) shall not be found in any case in which the court determines that the person believed and had reasonable grounds to believe that the use of the domain name was a fair use or otherwise lawful.

"(C) In any civil action involving the registration, trafficking, or use of a domain name under this paragraph, a court may order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark.

"(D) A person shall be liable for using a domain name under subparagraph (A) only if that person is the domain name registrant or that registrant's authorized licensee.

"(E) As used in this paragraph, the term "traffics in" refers to transactions that include, but are not limited to, sales, purchases, loans, pledges, licenses, exchanges of currency, and any other transfer for consideration or receipt in exchange for consideration.

"(2)(A) The owner of a mark may file an in rem civil action against a domain name in the judicial district in which the domain name registrar, domain name registry, or other domain name authority that registered or assigned the domain name is located if —

"(i) the domain name violates any right of the owner of a mark registered in the Patent and Trademark Office, or protected under subsection (a) or (c); and

"(ii) the court finds that the owner —

"(I) is not able to obtain in personam jurisdiction over a person who would have been a defendant in a civil action under paragraph (1); or

"(II) through due diligence was not able to find a person who would have been a defendant in a civil action under paragraph (1) by —

"(aa) sending a notice of the alleged violation and intent to proceed under this paragraph to the registrant of the domain name at the postal and e-mail address provided by the registrant to the registrar; and

"(bb) publishing notice of the action as the court may direct promptly after filing the action.

"(B) The actions under subparagraph (A)(ii) shall constitute service of process.

"(C) In an in rem action under this paragraph, a domain name shall be deemed to have its situs in the judicial district in which —

"(i) the domain name registrar, registry, or other domain name authority that registered or assigned the domain name is located; or

"(ii) documents sufficient to establish control and authority regarding the disposition of the registration and use of the domain name are deposited with the court.

"(D)(i) The remedies in an in rem action under this paragraph shall be limited to a court order for the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark. Upon receipt of written notification of a filed, stamped copy of a complaint filed by the owner of a mark in a United States district court under this paragraph, the domain name registrar, domain name registry, or other domain name authority shall —

"(I) expeditiously deposit with the court documents sufficient to establish the court's control and authority regarding the disposition of the registration and use of the domain name to the court; and

"(II) not transfer, suspend, or otherwise modify the domain name during the pendency of the action, except upon order of the court.

"(ii) The domain name registrar or registry or other domain name authority shall not be liable for injunctive or monetary relief under this paragraph except in the case of bad faith or reckless disregard, which includes a willful failure to comply with any such court order.

"(3) The civil action established under paragraph (1) and the in rem action established under paragraph (2), and any remedy available under either such action, shall be in addition to any other civil action or remedy otherwise applicable.

"(4) The in rem jurisdiction established under paragraph (2) shall be in addition to any other jurisdiction that otherwise exists, whether in rem or in personam.".

* * *

Appendix C

SECTION. 3010. EFFECTIVE DATE.

Sections 3002(a), 3003, 3004, 3005, and 3008 of this title shall apply to all domain names registered before, on, or after the date of the enactment of this Act, except that damages under subsection (a) or (d) of section 35 of the Trademark Act of 1946 (*15 U.S.C. 1117*), as amended by section 3003 of this title, shall not be available with respect to the registration, trafficking, or use of a domain name that occurs before the date of the enactment of this Act.

* * *

Federal Trademark Dilution Act
15 U.S.C. § 1125(c)

(c) Remedies for dilution of famous marks.

(1) The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this subsection. In determining whether a mark is distinctive and famous, a court may consider factors such as, but not limited to —

(A) the degree of inherent or acquired distinctiveness of the mark;

(B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used;

(C) the duration and extent of advertising and publicity of the mark;

(D) the geographical extent of the trading area in which the mark is used;

(E) the channels of trade for the goods or services with which the mark is used;

(F) the degree of recognition of the mark in the trading areas and channels of trade used by the marks' owner and the person against whom the injunction is sought;

(G) the nature and extent of use of the same or similar marks by third parties; and

(H) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.

(2) In an action brought under this subsection, the owner of the famous mark shall be entitled only to injunctive relief as set forth in section 34 [15 USCS § 1116] of this title unless the person against whom the injunction is sought willfully intended to trade on the owner's reputation or to cause dilution of the famous mark. If such willful intent is proven, the owner of the famous mark shall also be entitled to the

remedies set forth in sections 35(a) and 36 [15 USCS §§ 1117(a), 1118], subject to the discretion of the court and the principles of equity.

(3) The ownership by a person of a valid registration under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register shall be a complete bar to an action against that person, with respect to that mark, that is brought by another person under the common law or a statute of a State and that seeks to prevent dilution of the distinctiveness of a mark, label, or form of advertisement.

(4) The following shall not be actionable under this section:

(A) Fair use of a famous mark by another person in comparative commercial advertising or promotion to identify the competing goods or services of the owner of the famous mark.

(B) Noncommercial use of a mark.

(C) All forms of news reporting and news commentary.

* * * *

APPENDIX D — LETTER TO COUNSEL FROM UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT DATED DECEMBER 15, 1999

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT
UNITED STATES COURTHOUSE
40 FOLEY SQUARE – ROOM 1702
NEW YORK, N.Y. 10007

KAREN GREVE MILTON
Acting CLERK

GENERAL INFORMATION
(212) 857-8500

December 15, 1999

W. James Cousins, Esq.
McGowan & Cousins, P.C.
15 Cannon Rd
Wilton, Ct. 06897

Thomas J. Groark, Jr., Esq.
Day, Berry & Howard
Cityplace I
185 Asylum St.
Hartford, CT 06103

James R. Fogarty, Esq.
Epstein, Fogarty, Cohen & Selby
88 Field Point Rd
Greenwich, CT 06836

Re: Sporty's Farm v. Sportman's Market
U.S.C.A. Docket No. 98-7452 (L)

Appendix D

Dear Counsel:

The panel ask the parties in this case to submit letter briefs with a page limit of 15 pages by January 10, 2000 addressing the following issues:

(A) the effect of the new cybersquatting statute, the Anticybersquatting Consumer Protection Act (passed as a part of Public Law 106-113), see H.R. Rep. No. 106-479 (Nov. 17, 1999), on the case;

(B) whether, if a statute applies, the statutory requirements for an injunction against the use of sportys.com have been met, specifically: (1) whether *sporty's* is distinctive and (2) whether the findings of the district court may be read to include a finding that (as these terms are defined by the statute) there was a "bad faith intent" by the defendants "to profit" from the registration of sportys.com; and

(C) whether, if the statute applies, the pre-requisites for statutory damages are met.

FOR THE COURT:
KAREN GREVE MILTON,
Acting Clerk

s/ Lucille Carr
By: Lucille Carr
Deputy Clerk

lmc
CC: Panel

APPENDIX E — LETTER BRIEF TO UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT DATED JANUARY 7, 2000

FOGARTY COHEN SELBY & NEMIROFF LLC
88 FIELD POINT ROAD
GREENWICH, CONNECTICUT
06836-2508

(203) 661-1000
TELEFAX (203) 629-7300

* * *

January 7, 2000

Lucille Carr, Deputy Clerk
United States Court of Appeals
For the Second Circuit
United States Courthouse
40 Foley Square, Room 1702
New York, NY 10007

Re: Sporty's Farm v. Sportsman's Market
U.S.C.A. Docket No. 98-7452(L)

Dear Ms. Carr:

Sporty's Farm L.L.C. and Omega Engineering, Inc. jointly submit this response to the Clerk's letter dated December 15, 1999, which posed three questions relating to the new Anticybersquatting Consumer Protection Act, Public Law 106-1133 §3001 et. seq. ("1999 Act").

Appendix E

A. If The 1999 Act, Specifically The "Bad Faith" Requirement, Is Interpreted To Impose Liability Upon The Appellant, Then It Is Unconstitutional.

In its appeal, the appellant challenged the injunction issued below arguing that the district court impermissibly applied the FTDA retroactively and that the appellee's trademark is not "famous".

A prerequisite to liability under the FTDA is that the subject trademark be both distinctive and "famous". In contrast, the new 1999 Act involves different standards. It applies when a trademark is simply distinctive; it imposes liability when someone with "bad faith intent to profit" from the trademark registers a confusingly similar domain name and it covers "all domain names registered before, on, or after the date of enactment" (with respect to injunctive relief). Public Law 106-113 §3002(a) (providing a new cause of action under 15 U.S.C. §1125(d)(1)(A)) and §3010.

The appellant does not argue that appellee's trademark "sporty's" lacks distinctiveness. Whether the 1999 Act applies here centers then on an analysis of the "bad faith" element. The appellant respectfully contends that this element must be construed as set out below, or the 1999 Act would impose liability for conduct legal when it occurred; when the appellant acquired and used its property rights; through trial; and through the oral argument of the appeal and for many months thereafter. Obviously the appellee did not base a claim on the 1999 Act which did not exist, and the 1999 Act does not purport to amend the FTDA upon which the appellee did explicitly base the fifth count of its

counterclaim. (A41.) If the court interprets the 1999 Act, specifically the bad faith requirement, as imposing liability for conduct which was lawful at all times when it occurred, then the appellant urges that the 1999 Act is unconstitutional and that appellant is entitled to introduce evidence to rebut any claim of bad faith and to support its claim of unconstitutionality. (See appellee's original brief pp. 17-18.)

All of the appellant's arguments against retroactive application of the FTDA based upon the Takings Clause and the Due Process Clause (appellant's original brief pp. 20-24 and reply brief pp. 1-6) apply with greater force to the 1999 Act. The FTDA became effective on January 16, 1996 without expressly stating whether it applies retroactively. It is undisputed that the domain name sporty's.com was registered on April 25, 1995; that by written assignment agreement dated January 12, 1996, Omega contracted to sell the domain name to Sporty's Farm for $16,200; and that the domain name became fully operational by May 1996 and was used until the district court ordered its transfer to the appellee in March 1998. (A276-77.) Certainly in 1995 or 1996 no reasonable person could have anticipated the provisions of the 1999 Act. As discussed more fully below, the district court found that appellant did not engage in any willful or bad faith conduct under the standards then existing. Moreover, even under the 1999 Act, no logical construction supports a conclusion of appellant's bad faith. Thus, the 1999 Act has no effect on the issues before this court and a retroactive imposition of liability for acts lawful when committed would be unconstitutional.

B. The Requirements Of The 1999 Act For An Injunction Against The Use of Sporty's.com Have Not Been Met.

The court has requested briefing on two requirements of the 1999 Act: (1) the requirement of distinctiveness of the mark, which now for the first time is an alternative to the requirement of famousness required by the FTDA; and (2) the requirement that the person registering or using the domain name have "a bad faith intent to profit from that mark." 15 U.S.C. §1125(d)(1)(A). The appellant does not dispute that "sporty's" is distinctive. The appellant does claim, however, that the bad faith requirement cannot be met for four reasons: (1) the district court's finding, which is not clearly erroneous, cannot be read to find any such bad faith intent; (2) application of the factors stated in the 1999 Act demonstrates that the appellant is not subject to liability; (3) the legislative history of the 1999 Act shows that it was not intended to impose civil liability in a case such as this; and (4) assuming that this court determines that the famousness requirement of the FTDA was not satisfied, there was a failure of proof of any illegality of the appellant's conduct, much less bad faith.

1. The District Court's Finding Cannot Be Read To Support Any Conclusion of Bad Faith Intent.

First, the district court explicitly found that the appellant and appellee trade in wholly distinct and separate market spheres and that no overlap or potential overlap exists between their products:

> . . . Sportsman's Market has expressed no intention to 'bridge the gap' and enter the market

> occupied by Sporty's Farm's product. Sportsman's Market is not in the business of selling Christmas trees and has offered no evidence to indicate that it is considering doing so. In addition, Shevers [officer of Sportsman's Market] testified that Sportsman's Market has never sold any trees or agricultural products. **Sporty's Farm also has no intention to 'bridge the gap' and will agree that it will not use the 'sporty's.com' domain name for the sale of pilot's products or aviation products of any nature. Finally, the products are not similar, are not in competition in the marketplace, and are not sold in proximate channels of trade.**

A 281-82 (emphasis added.)

The appellee has not claimed that these findings were made without evidence. Indeed, they are well supported by the evidence. (A 121, 127, 144-46.) These unchallenged findings are directly contrary to a conclusion that appellant had any "intent to profit from the appellee's mark", much less a bad faith intent. Moreover, the appellant unequivocally agreed that it would not use the domain name "sporty's.com" to sell any products sold by the appellee (A 281-82), further underscoring appellant's lack of any intent to profit from, or trade on the appellee's trademark.

Second, the presence or absence of good faith is one of the eight *Polaroid* factors considered by the district court in its determination of whether a likelihood of confusion existed. (A280) It is an "extremely important" factor because

one who sets out to trade on the goodwill of another ordinarily will be presumed to have accomplished that goal. *Estee Lauder, Inc. v. The Gap, Inc.*, 932 F.Supp. 595, 615 (S.D. N.Y. 1996), rev'd. on other grnds., 108 F.3d 1503 (2d Cir. 1997). After analyzing the *Polaroid* factors, the court below determined that there was no likelihood of confusion (A281), implicitly finding that no bad faith existed. The appellant's knowledge of the appellee and its pilot shop catalog (A276) is not inconsistent with its good faith. As this court has held, one party's "prior knowledge of . . . [another party's] trade name does not give rise to a necessary inference of bad faith, because adoption of a trademark with actual knowledge of another's prior registration of a very similar mark may be consistent with good faith." *Lang v. Retirement Living Publ'g. Co., Inc.*, 949 F.2d 576, 581 (2d Cir. 1991) (Oakes, J.) Here, there is no finding that the appellant knew of the appellee's actual trademark "Sportys"; nor is there any finding that the "sporty's.com" domain name would be used in connection with the sale of any of the aviation products sold by the appellee. On the contrary, the court satisfied itself (as revealed by the trial transcript quoted in the appellant's reply brief p. 2) that the domain name would not be used to sell any of the appellee's products. (A281-821).

Third, and most important, the district court expressly found a lack of the proof required for damages under the FTDA, that "the person against whom the injunction is sought willfully intended to trade on the owner's reputation or to cause dilution of the famous mark." 15 U.S.C. §1125(c). (A 292-93.) The element of willfulness under the FTDA is essentially the same as, if not a less onerous requirement

than, the element of bad faith intent to profit under the 1999 Act. It has been held that "willful intent" is the equivalent of "deliberate", such that a plaintiff seeking damages must prove the defendant deliberately intended to trade on the owner's mark or to dilute the mark. *Ringling Bros. – Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*, 955 F.Supp. 598 (E.D. Va 1997) *aff'd* 170 F.3d 449 (4th Cir. 1999) (*cert. denied*) 120 S.Ct. 286 (1999). Although related, "bad faith" seems to suggest more of a dishonest purpose. See *Phillip v. Fairfield University*, 118 F.3d 131, 135 (2d Cir. 1997). In a trademark infringement/dilution context, "bad faith" has been construed to mean a deliberate adoption of a trademark with the "desire to trade on the goodwill, fame and reputation" of the owner, particularly when the defendant knew the use would cause confusion. *Tri-Star Pictures, Inc. v. Kurt Unger*, 14 F.Supp. 2d 339, 352 (S.D. N.Y. 1998) *aff'd.*, __ F.3d __ 1999 U.S. App. LEXIS 25098 (2d Cir. 1999).

In a similar vein, the Lanham Act permits the award of counsel fees to the prevailing party "in exceptional cases." 15 U.S.C. §1117(a). This court has interpreted this language to mean that "such fees should be awarded only on evidence of fraud or bad faith," *Twin Peaks Prods., Inc. v. Publications Int'l Ltd.*, 996 F.2d 1366, 1383 (2d Cir. 1993) (citation and internal quotation omitted), or on evidence of "willful infringement," *Bambu Sales, Inc. v. Ozak Trading, Inc.*, 58 F.3d 849, 854 (2d Cir. 1995). *Cf., New York State Society of Certified Public Accountants v. Eric Louis Associates*, 1999 U.S. Dist. LEXIS 18543 at 46-50 (S.D. N.Y. 1999) (bad faith found where defendant's domain name incorporated plaintiff's trademark for very purpose of attracting plaintiff's

members). This court's use of either "bad faith" or "willful" misconduct interchangeably to satisfy the "exceptional cases" requirement shows that their meaning is substantively the same. Hence, the district court's finding that no "willful" misconduct occurred within the meaning of the FTDA is tantamount to a finding that no "bad faith" could have occurred within the meaning of the 1999 Act.

By analogy, when considering whether a default was willful, this court has held that "it will look for bad faith, or at least something more than mere negligence, before rejecting a claim of excusable neglect based upon an attorney's or a litigant's error." *American Alliance Insurance Co. v. Eagle Insurance Company*, 92 F.3d 57, 60 (2d Cir. 1996). Subsequently, this court clarified its holding and explained that in *American Alliance* the court "did not intend to suggest that a finding of bad faith is a necessary predicate to concluding that a defendant acted 'willfully' for the purpose of Rule 60(b)(1)." *Gucci America, Incorporated v. Gold Center Jewelry*, 158 F.3d 631, 635 (2d Cir. 1998), *cert. denied*, 119 S. Ct. 873f (1999). Coincidentally, the opinion in *Gucci America* was written by Judge Covello, the district judge below, sitting by designation.

The above authorities instruct that, generally speaking, bad faith and willfulness are interchangeable phrases. However, bad faith suggests slightly greater culpability than willfulness. The latter may be deliberate, intentional, stupid or grossly negligent. The former is even worse. In other words, the 1999 Act's requirement of bad faith is a higher bar to liability than the FTDA's requirement of willfulness. Since Judge Covello found that the appellee failed to clear the lower bar, the appellee could not possibly clear the higher bar.

2. Application Of The Factors Stated In The 1999 Act To The Evidence Below Shows That The Appellant Is Not Subject To Liability

The 1999 Act articulates nine non-exclusive factors to consider in determining whether the bad faith element exists. 15 U.S.C. §1125(d)(1)(B). The first and most general of the factors is ambiguous and requires consideration of the Act's legislative history to clarify its meaning. As discussed fully in the next section, the legislative history addressing the Act generally, and this factor specifically, instructs that the Act is narrow in effect and that the "bad faith" concept is restricted in application. Factors two through four generally do not apply here. The last five factors, however, all weigh substantially in favor of the appellant's good faith.

The fifth factor is "the person's intent to divert consumers from the mark owner's online location . . . either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion . . ." 15 U.S.C. §1125(d)(1)(B)(i)(V). The uncontroverted evidence shows that the appellant never attempted to divert the appellee's customers and had no intention of doing so. (A 121, 127, 144-46.) The court believed this evidence and made a finding to this effect. (A 281-82.) Further, the court found no overlap in products sold by the parties so that there could be no confusion. (A 282.)

The sixth factor is the "person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used . . . the domain name . . ." 15 U.S.C. §1125(d)(1)(13)(i)(VI). It

is undisputed that the appellant never sought to sell the domain name. (R-T pp. 53-54) In fact, it has used the name and it has insisted it owns, and wants to use the name.

The seventh factor is "the person's provision of material and misleading false contact information when applying for the registration of the domain name. . . ." 15 U.S.C. §1125(d)(1)(B)(i)(VII) There is no evidence of any such misleading information. On the contrary, the information was completely accurate.

The eighth factor is "the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others. . . ." 15 U.S.C. §1125(d)(1)(i)(VIII) Here, the appellant acquired only one domain name (A 170-76.) claimed to be identical or confusingly similar to another mark.

The ninth factor is "the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous. . . ." 15 U.S.C. §1125(d)(1)(B)(i)(IX) (emphasis added). Although it may be distinctive, "sporty's" is not famous within the meaning of the Lanham Act. Recent cases confirm this conclusion. See, for example, *Syndicate Sales, Inc. v. Hampshire Paper Corp.*, 192 F.3d 633, 641 (7th Cir. 1999); *Avery Dennison Corporation v. Sumpton*, 189 F.3d 868 (9th Cir. 1999); *Ringling Bros. Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*, 170 F.3d 449, 461 (4th Cir. 1999), *cert. denied*, 120 S.Ct. 286 (1999); *Carnival Corporation v. Seaescape Casino Cruises, Inc., Inc.*, 1999

U.S Dist. LEXIS 17546 (S.D. Flor. 1999); and *Hasbro, Inc. v. Clue Computing, Inc.*, 66 F.Supp. 2d 117 (D. Mass. 1999).

Thus, a majority of the statutory factors, when applied to the evidence, weigh only in favor of the appellant's good faith.

3. The Legislative History Of The 1999 Act Shows That It Was Not Intended To Apply In A Case Like This.

When Senator Hatch introduced the bill which became the 1999 Act he asked that a section-by-section analysis of the bill be included in the Congressional Record. (106th Congress, 1st Sess. 7/29/99, vol. 145, no. 109.) Among other things, the analysis states:

> The bill is carefully and narrowly tailored, however, to extend only to cases where the plaintiff can demonstrate that the defendant registered, trafficked in, or used the offending domain name with bad-faith intent to profit from the goodwill of a mark belonging to someone else. Thus, the bill does not extend to innocent domain name registrations by those who are unaware of another's use of the name, or even to someone who is aware of the trademark status of the name but registers a domain name containing the mark for any reason other than with bad faith intent to profit from the goodwill associated with that mark.

Id. at S9752.

Appendix E

With respect to the first statutory factor which is "the trademark or other intellectual property rights of the person, if any, in the domain name", the analysis states in material part:

> This factor recognizes, as does trademark law in general, that there may be concurring uses of the same name that are noninfringing, such as the use of the "Delta" mark for both air travel and sink faucets. Similarly, the registration of the domain name "deltaforce.com" by a movie studio would not tend to indicate a bad faith intent on the part of the registrant to trade on Delta Airlines or Delta Faucets' trademarks.

Id. at S9752.

Although the district court below found that the appellant knew of the appellee "Sportsman's Market and its pilot shop catalog" (A 276) prior to registration of the "sporty's.com" domain name, there is no finding that the appellant knew of the trademark "sporty's" until the appellee's complaint approximately one year after registration of the domain name. (R-T, pp. 49-51) The appellant's officer testified that his response to the appellee's complaint was as follows:

> I looked at the various catalogs [of appellee] that accompanied them, and I didn't understand why he [Mr. Shevers, appellee's officer] felt that he was entitled to the domain name registration and we were not.

(R-T, p. 51)

If the draftsmen of the 1999 Act did not intend to impose liability on the movie studio registering the domain name "deltaforce.com," then clearly they did not intend to impose liability on the appellant for registering the domain name "sporty's.com."

4. Assuming That This Court Determines That The "Famousness" Requirement Of The FTDA Was Not Satisfied, The Appellant Could Not Possibly Have Had "Bad Faith" Within The Meaning Of The 1999 Act.

In addition to listing the nine non exclusive factors, the 1999 Act provides:

> Bad faith intent . . . shall not be found in any case in which the court determines that the person believed and had reasonable grounds to believe that the use of the domain name was a fair use or otherwise lawful.

15 U.S.C. §1125(d)(1)(B)(ii).

The district court below has already found that the appellant's conduct was not willful. This finding was made despite its conclusion that there was liability under the FTDA. If this court reverses the conclusion that liability exists under the FTDA, it means not only did the appellant act in good faith; but that the appellant was correct — it could use the domain name lawfully. Under these circumstances, the appellant could not possibly be liable for a bad faith violation of a statute which did not then exist.

C. The 1999 Act Does Not Permit Any Award Of Damages Retroactively.

Public Law 106-113 §3010 expressly provides that damages shall not be available with respect to the registration or use of a domain name that occurs before the date of the enactment of the Act.

Respectfully submitted,

s/ James R. Fogarty
James R. Fogarty

cc: James Sicilian, Esq.
Thomas J. Groark, Esq.

APPENDIX F — REGISTRATION SERVICES FORM — "sportys.com"

Registration Services

Whois Query Results

Sporty's Farm, L.L.C SPORTYS-DOM
P.O. Box 34, Spring Hill Rd.
Sterling, PA 18463

Domain Name: SPORTYS.COM

Administrative Contact, Technical Contact, Zone Contact:
domain,Hostmaster DH177-ORG
hostmaster@OMEGA.COM
203-359-7769
Fax-203-359-7640
Billing Contact:
Accounts Payable AP897-ORG
account@OMEGA.COM
203-359-7673
Fax-203-359-7906

Record last updated on 29-Jan-98.
Record created on 20-Apr-95.
Database last updated on 19-Feb-98 04:09:33 EDT.

Domain servers in listed order:

OM5.OMEGAENG.COM 207.140.183.40
OM3.OMEGAENG.COM 207.140.183.4

APPENDIX G — LETTER AGREEMENT DATED JANUARY 12, 1996

SPORTY'S FARM, L.L.C.

January 12, 1996

Sharon H. Strong
Vice President
Instruments & Controls Division
Omega
One Omega Drive
P.O. Box 4047
Stamford, CT 06907

Dear Ms. Strong:

This letter agreement is in reference to the terms and conditions negotiated by you on behalf of Omega for the transfer/sale of the Sportys.Com domain name to Sporty's Farm L.L.C.

Sporty's hereby agrees to pay Omega, $16,200 for the transfer/sale of the Sportys.com domain name to Sporty's Farm L.L.C., P.O. Box 34, Spring Hill Road, Sterling, PA 18463.

It is further understood that Sporty's Farm L.L.C. has filed with the Secretary of State of Pennsylvania, on this date, organization papers and that the domain name shall be transferred on the date the Certificate of Organization is issued from the Secretary of State of Pennsylvania. Payment to be made within 10 days of transfer.

Appendix G

The above terms represent full and final agreement regarding the transfer/sale of the Sportys.Com domain name.

Thank you.

Sincerely,

s/ Ralph S. Michel
Ralph S. Michel
Manager

RSM:et

On behalf of Omega, I hereby accept this letter agreement this 15th day of January, 1996.

s/ Sharon H. Strong
Sharon H. Strong
Vice President,
Instruments & Controls Division